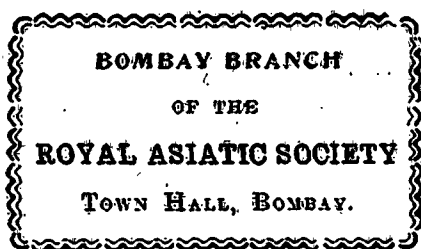


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THE
SCIENCE OF EXCHANGES.

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BY

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"Demand is in reality the bond which keeps all commercial dealings together. For if men wanted nothing or not so much, there would not be any or not so much commerce."—ARISTOTLE'S ETHICS.



SECOND EDITION.

REVISED AND ENLARGED.

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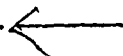
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PREFACE TO THE SECOND EDITION.

THE Author thanks the public for the favour with which they received his very dry little book ; he has carefully revised and corrected the Second Edition, which he now offers to his readers.

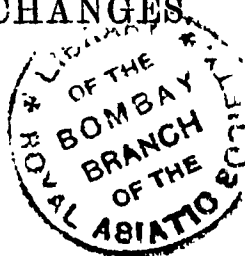
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THE SCIENCE OF EXCHANGES

CHAPTER I.

VALUE.



1. What is value?

Value is the real or fancied advantage which men derive from the use of anything, whether it be an exchangeable article, or not.

2. What is exchange?

Exchange is the giving something which has a value in order to get something in return which has also a value.

3. What is a commodity?

A commodity is anything which has a value and can be exchanged.

4. What is value in exchange?

It is the quantity of any other commodity which we can get in exchange for the particular quantity of the commodity which we give. When the word value is used in the science of which we treat, we always mean value in exchange, unless we particularly specify that we are using the word in its first and simplest sense.

5. What is production?

It is turning the gifts of the earth into commodities.

6. What is consumption?

It is the using of commodities.

7. What is consumption for the mere sake of consumption?

It is the using of commodities for the purpose of enjoyment.

8. What is consumption for the sake of production?

It is the using of commodities which is unavoidably caused by that production; it is the cost of production itself.

9. What is profit?

Any gain or advantage, from whatsoever source it is derived.

10. What is profit on a commodity?

It is the clear gain which any one makes by the exchange of that commodity.

11. What is the minimum of profit?

It is the lowest rate of profit which will satisfy the producers of any commodity, for without this minimum they would not continue to supply the commodity.

12. What brings the profit made by the producers of any commodity to its minimum?

Competition amongst each other for other commodities, for one undersells the other till the minimum of profit is reached.

13. What is want?

Want is the feeling that it would be to our advantage to have some commodity which we have not.

14. What is demand?

Demand is the offering a commodity which we have in exchange for one which we want.

15. What is supply?

Supply is the commodity itself which we offer in exchange.

16. What is effective demand?

It is offering a sufficient quantity of the commodity which we have to enable us to get the commodity which we want.

17. Can demand, as we define it, exist without supply, or supply without demand?

Certainly not, for we must furnish a supply of some sort or other, in order to offer it for the commodity which we want.

18. Does the furnishing a supply of any commodity create a demand for that commodity?

No, it does not; it only creates a demand for those commodities which the furnishers of that supply may want. Unless people offer commodities in exchange for the commodity supplied, there is no demand for it, and the supply remains on hand.

19. What does create a demand for a commodity?

The offering other commodities in exchange for that commodity.

20. What is competition?

It is offering more of any commodity, or a better quality of commodity, than others offer, in order to induce the suppliers of the commodity which you want to deal with you instead of with the other offerers.

21. What effect has competition upon the value of any commodity competed for?

It always increases the value of that commodity, for the competitors, in bidding against each other, offer more of the commodities which they have, in ex-

change for the particular quantity of the commodity which they want, and thus increase its value.

22. What causes a diminution in the value of any commodity?

Competition for other commodities amongst those who supply that commodity, for they must offer more of it in exchange for particular quantities of those commodities which they are competing for.

23. What is the meaning of proportion between demand and supply?

The relative difference between the quantity of a commodity which is actually supplied in a particular market and the quantity which people want and offer for in that market.

24. When is a supply said to be too large?

When the quantity of a commodity actually supplied is larger than the quantity offered for by those who want the commodity.

25. When is a supply said to be too small?

When the quantity of a commodity actually supplied is smaller than the quantity offered for.

26. When is a supply said to be sufficient?

When the quantity of a commodity which is actually supplied is about equal to the quantity which is offered for.

27. What is the effect in each case on the value of the commodity supplied?

(1) When the supply is too large, those who supply the commodity must compete against each other for any commodities which they want, and thus diminish the value of their supply.

(2) When the supply is too small, those who want

the commodity supplied must compete against each other to obtain it, and thus the value of that supply is increased.

(3) When the supply is sufficient, those who supply the commodity compete against each other for the commodities which they want, till they bring the value of their supply down to the cost of its production and the minimum rate of profit to be made on its exchange.

28. What is average value?

The average value of any commodity to those who produce it consists of the average cost of its production and the average rate of profit to be made on its exchange; to the world at large it consists only of the cost of production, for this includes the average rate of profit which must be made by the producers.

29. What are fluctuations in value?

They are alterations in the proportion which the supply of any commodity in some particular market bears to the demand for it there.

30. What may be called the equilibrium of any commodity's value?

The average value of that commodity, for the commodity will rise above its average value or fall below it, according to the proportion which the supply of it in any particular market bears to the demand for it there.

31. What is intensity of demand?

The demand for any commodity is said to be intense when it much exceeds the supply of that commodity, and increases in intensity as long as people continue to offer more of the commodities which they

have, in exchange for the particular quantity of the commodity which they want.

32. Does the demand for any commodity necessarily produce in process of time a supply proportionate to that demand?

It does not necessarily do so, for demand is merely offering a commodity which we have, in exchange for one which we want; intense demand for any commodity will certainly set many people at work to endeavour to supply it, for the profit to be made on its exchange will tempt them, but they may find great difficulty in procuring it themselves, from a variety of causes, and the supply may still be small and limited. In this case the only effect of intense demand will be to increase the value of the commodity; but in the general run of instances intense demand does lead to a proportionate supply, for all who can supply the commodity are tempted by the high rate of profit to do so.

33. What is abundance?

It is great plenty of any commodity.

34. What is wealth?

Wealth is the power of obtaining commodities which the possession of one or many commodities gives.

35. What is trade?

Trade is the steady and continued exchange of commodities, which arises from a simple exchange having been found advantageous to both exchangers.

36. What is free trade?

Free trade is trade open to all who desire to engage in it without any regulations to restrict competition

amongst them, whatever be their race or country, in their dealings with each other.

37. What do you mean by regulations to restrict competition?

Any regulations in any particular country which either shut out certain competitors altogether who would willingly offer their commodities in the markets of that country, or which press unfairly on them in the shape of duties on their commodities, to the advantage of other competitors who supply the same kind of commodities, but have no such duties to pay.

38. What is protection?

It is restricting competition in trade for the special advantage of particular classes of exchangers in any one country.

39. What is a monopoly?

A monopoly is permitting only a favoured few to supply any particular commodity, so as to prevent any competition amongst those who supply that commodity. It differs from protection, for this last admits of a restricted competition—the protected producers competing against each other.

40. What is glut?

Glut is when any commodity falls below the cost of its production, from the superabundant supply of it in any particular market.

41. What is price?

It is the quantity of money which a man can get in exchange for a commodity.

42. What is average price?

It is the average price of a commodity during a given time.

43. What is interest ?

It is the price paid for the use of money.

44. What is rent ?

It is the price paid for the use of land, houses, &c.

45. Is the use of any commodity during a given time to be considered itself a commodity ?

It must be considered just as much a commodity as the commodity itself which is used, for it has a value and can be exchanged.

46. What is the source of wealth ?

The source of wealth is trade.

47. What two things are most conducive to the development of a nation's wealth ?

Cheap power of production and free trade ; that is, the being able to produce commodities cheaply, and the being allowed to compete without restrictions in any markets whatever, either as buyers or sellers.

48. What is property ?

Anything which legally belongs to any one.

49. What is capital ?

Any commodity, or combination of commodities, which is being employed with a view to profit.

50. What is the best indication of the average value of capital in any country ?

The average market rate of interest in that country, for capital in the shape of money can be easily applied to any purpose of production.

51. What ought the rate of interest to depend upon in any country where there are no usury laws ?

It ought to depend upon the proportion between the quantity of money in that country and the demand for its employment.

52. What is hoarding?

Hoarding is the accumulation of unemployed commodities.

53. What is saving?

Saving is the accumulating of commodities with the purpose of converting that accumulation into capital.

54. What is retrenchment?

It is saving by diminishing consumption for the sake of enjoyment, and is only useful to a nation in so far as it secures a better distribution of capital; but as it diminishes consumption for the sake of enjoyment, it injures trade.

55. What is the best kind of saving for a nation?

Saving without retrenchment; for then consumption for the sake of enjoyment is not interfered with, and the nation produces each year more than it can consume, and so adds to its wealth.

CHAPTER II.

LABOUR.

56. What is labour?

Any work, toil, or exertion.

57. What is labour when considered as a commodity?

Labour is any work which a man performs in order to get other commodities in exchange for that work.

58. What are wages?

Any commodity given to the labourer in exchange for the work which he does. Wages may be either in money or in kind.

59. Does labour, in the long run, make a solid return to the labourer?

It does, for a labourer could not continue to work if he did not get other commodities in exchange for the work which he does.

60. Can a labourer be his own employer?

Certainly; any one who employs his labour in producing commodities which he exchanges for others that he wants, unites the characters of employer and labourer in his own person.

61. What is productive labour?

It is labour which makes a solid return to both employer and labourer, whether the labourer is his own employer or whether he has an employer distinct from himself.

62. What is unproductive labour?

It is labour which makes a solid return to the labourer only. Any labour for a continuance, whether we call it productive or unproductive, must make a solid return to the labourer, or he could not continue to work; but it need not necessarily make a solid return to the employer. It is then called unproductive, because it is so as far as the employer is concerned.

63. How, then, can we distinguish the productive labourer from the unproductive one?

The productive labourer may be his own employer; the unproductive labourer must have a distinct employer, for he must find some one who is willing to give commodities in exchange for labour which makes him no solid return.

64. Are unproductive labourers of advantage to the prosperity of a nation?

They are; for if there were only productive labourers to be found in a great industrious nation, capital would be created much faster than it could be consumed, and the motive to further production would be taken away. In Great Britain, as it is, what we want is an extension of our markets; if we can only get customers for our goods, we shall produce the goods fast enough. A nation in a really healthy state ought always to produce more than she can consume, and thus, by saving, add to her wealth; but this balance of production over consumption is never very large, for the individuals of which the nation is composed live better as they get richer, and so consume more than they did; they also increase in numbers.

65. What does the value of labour depend upon ?

It depends upon the proportion which the quantity of labour in the market bears to the demand for its employment. If labour is plentiful, it will be cheap ; if scarce, it will be dear.

66. What is every bargain between an employer and a labourer ?

It is a simple bargain between a buyer and a seller ; the employer tries to buy the commodity, labour, as cheap as he can ; the labourer tries to sell his labour to the best advantage, by giving as little of it as he can in exchange for the employer's money.

67. What is a strike ?

It is a contention between employers and labourers about the price of labour. The labourers refuse to work unless they get increased wages, and the employers refuse to give the extra sum. Each side stands out, and those who can stand out longest are the winners.

68. Are strikes unjust in principle ?

No, there is no harm in men trying to get the best price for the commodity in which they deal, whether it be labour or money.

69. Are strikes injurious to the general interests of society ?

Certainly ; every one suffers by business being brought to a stand-still ; the public cannot get what they want, the employers are greatly injured by their capital lying idle, and the labourers have to suffer great privations before they can induce the employers to yield ; indeed, they have sometimes to return to their work on the old terms.

70. Is labour, when considered as a commodity, to be looked upon as capital?

Capital has been defined to be "any commodity, or combination of commodities, which is being employed with a view to profit." Now, a labourer will always employ his labour with a view to profit, for whether the labour which he sells is profitable or unprofitable to his employer, it must be profitable to himself, or he would not continue to supply the commodity; labour, therefore, is always capital to the labourer. But labour is not necessarily capital to the employer, for he may pay labourers who are engaged in works conducted without any view to profit, and this sort of labour is not capital to him, although it is capital to the labourers themselves. Productive labour is capital to both the employer and the labourer; unproductive labour is capital to the labourer only, for it is unproductive as far as the employer is concerned.

CHAPTER III.

BUYING AND SELLING.

71. What is buying?

It is giving money in exchange for any other commodity.

72. What is selling?

It is giving any other commodity in exchange for money.

73. What is speculation?

It is buying any commodity which is liable to alteration of price, when the supply of it is large and the price low, with a view to selling it when the supply chances to be small and the price high.

74. What is speculative demand?

It is any demand created by speculators, and not caused by the wants of trade.

75. What is foreign trade?

It is the exchanging the surplus produce of our own country for the surplus produce of some other country; we want to be supplied with commodities which are produced both better and cheaper abroad than we can produce them at home.

76. When are the foreign exchanges said to be favorable to a nation?

They are said to be favorable when that nation sells more to other nations than she buys from them, and the balance which then becomes due to her is called the balance of trade.

77. When are the foreign exchanges said to be adverse to a nation?

They are said to be adverse when that nation buys more from other nations than she sells to them.

78. When are the foreign exchanges said to be at par?

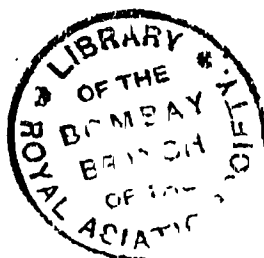
They are said to be at par between two nations when the amount of what is bought by the one in their mutual dealings exactly balances what is sold by the other.

79. What is credit?

Credit is the being able to obtain another man's capital upon trust.

80. What is the golden rule in commerce?

Buy in the cheapest and sell in the dearest markets ; without free trade this is impossible.



CHAPTER IV.

CURRENCY.

81. What is money?

It is the common measure by which we value all other commodities.

82. What is the great advantage which money possesses over all other commodities?

That people who have money can always find people who want money and are willing to exchange commodities for it, whereas people who have other commodities very often cannot find customers for them.

83. Mention any other advantages.

Money is easily brought from one market to another, and has been divided at the Mint into those sizes of coin which are most convenient for the purposes of exchange.

84. What is issue?

It is the power of creating money.

85. What is banking?

It is the duty of using and distributing that money after it is issued in a proper manner in the conduct of business.

86. What is the currency?

The currency is the money which is in use in any country, and consists in Great Britain of coin and bank-notes, issued under certain restrictions.

87. What is managing the currency?

Managing the currency in Great Britain is regula-

ting the fluctuations in the amount of bank-notes which we issue, by the fluctuations in the amount of bullion which comes in and goes out of the country, according to the state of the foreign exchanges.

88. What is the circulation?

The circulation is that amount of currency which is in use in any country.

89. How ought the circulation to be managed?

It ought to be left free to manage itself, expanding or contracting according to the wants of trade.

90. What is an expansion of the circulation?

In Great Britain it is an influx of bullion into the country, from the foreign exchanges being favorable.

91. What is a contraction of the circulation?

A contraction of the circulation in Great Britain is an efflux of bullion out of the country, from the foreign exchanges being adverse.

92. What is the cause of depreciation in the value of the currency?

A continued expansion of the circulation.

93. What is the cause of an increase in the value of the currency?

A continued contraction of the circulation.

94. What is monetary pressure?

It is that rise in the rate of interest which ought to accompany any contraction of the circulation.

95. What is convertibility?

It is an exact coincidence in value between bank-notes and the bullion they are issued against.

96. What is a period of full currency?

It is when the foreign exchanges continue for some time at par, and the amount of the circulation is not affected by the state of the foreign exchanges.

97. What is auxiliary currency?

Bills of exchange, promissory notes, cheques, and anything which serves to economise the circulation, are called auxiliary currency; *as they are not made by law to fluctuate in their amount, as bank-notes are, they cannot maintain a precisely equal value with true currency.*

98. What is meant by the term, "in circulation"?

Anything which is performing the functions of money is in circulation. Bank-notes, performing these functions, are equally in circulation whether they are in the hands of the public or the bank which issued them; bills of exchange, promissory notes, cheques, &c., are in circulation whenever they are actually enabling us to do with a less amount of currency than if they were not in existence.

99. What is meant by the term "in active circulation"?

Any kind of currency is in active circulation while one person passes it as money to another in constant succession.

100. What does the efficiency of the circulation in any country depend on?

It depends on the state of credit in that country; if the state of credit is good, a much less amount of currency will be sufficient for the purposes of trade than if the state of credit is bad. When people lose confidence they begin to hoard their money, and thus they diminish the amount of currency in active circulation. Auxiliary currency, too, is based upon credit, so that its power of economising the circulation is weakened or destroyed.

101. Is a want of money the same thing as a want of capital?

Certainly not; a want of money is a want of a particular kind of capital, not a want of capital generally.

102. What is the principal point of difference between a bill of exchange and a promissory note?

A bill of exchange contains an order to pay, whereas a promissory note contains a promise to pay.

103. Give some account of the parties to a bill of exchange.

The party who draws the bill is called the drawer; the party to whom the order to pay is addressed is called the drawee till he gives his assent to the transaction by writing his name across the bill, when he is called the acceptor; the party to whom the bill is made payable is called the payee; the drawer and the payee may be the same person. When any holder of a bill writes his name on the back of that bill, in order to make over his interest in it to some other person, he is called an indorser. The drawee, on accepting a bill, either personally or by his recognised agent, becomes primarily liable for that bill; but if he refuses to accept the bill when presented to him, or cannot pay it when it becomes due, he is said to dishonour it, and the drawer and any indorsers there may be become immediately liable to the holder, on receiving notice from him that the bill which he holds is dishonoured, accompanied by a request to pay its amount. If the drawer of the bill which has been dishonoured pays its amount, all the indorsers are discharged from their liability to the holder by such payment; but if

the last indorser is compelled to pay the amount of the bill, the drawer and the previous indorsers are not discharged by this payment, for the last indorser can sue them for the amount he has paid to the holder of the bill. A bill may be paid any number of times before it is due, and may be put into circulation again between each payment; but once it is paid by the acceptor on its becoming due, it cannot be put into circulation again, nor can any action be brought upon it.

104. What is discounting a bill?

Any broker or banker who buys a bill, deducting so much from its price as interest till the bill becomes due, is said to discount that bill, and the interest which he deducts is called discount.

105. What is money at call?

Money lent by bankers, with the option of having it back at any moment, to bill-brokers, on the security of bills which they deposit with the banks.

106. Give an instance to explain the use of bills of exchange.

Jean, of Marseilles, sends a thousand francs' worth of silk goods to Diego, of Rio de Janeiro, and draws a bill on Diego for a thousand francs; this bill is discounted for Jean by a banker at Marseilles. Juarez, of Rio de Janeiro, sends a thousand francs' worth of coffee to Jacques, of Havre, and draws a bill on Jacques for a thousand francs; this bill is discounted for Juarez by a banker at Rio de Janeiro. Diego, who wants a bill on France in order to pay Jean, buys this last bill of the Rio de Janeiro banker, and sends it to Jean; Jacques, of Havre, on whom it is

drawn, must pay his countryman Jean a thousand francs. Jacques, who wants a bill on Rio de Janeiro in order to pay Juarez, buys the first bill mentioned, which Jean drew on Diego, and which the Marseilles banker holds, and sends it to Juarez; Diego, on whom it is drawn, must pay his countryman Juarez a thousand francs. In short, Diego, who has bought silk, pays Juarez, who has sold coffee, while Jacques, who has bought coffee, pays Jean, who has sold silk, and the risk and expense of transmitting money from France to Rio de Janeiro, or *vice versá*, is avoided.

107. What advantages do bills of exchange at short dates possess?

Though the drawer, acceptor, and indorsers of such bills may all of them be persons of doubtful credit, yet still the shortness of the date gives some security to the holder of the bill; though all of them may be likely to become bankrupt, it is a chance if they all become so in so short a time.

108. What are accommodation bills?

Inland bills, which are not based upon any trade transactions, either present or future, but which are drawn for the sole purpose of raising money. In general, where an accommodation bill is concerned, the only real creditor is the man who discounts the bill, and the only real debtor is the man who gets the amount of the bill minus that discount. It requires great experience to distinguish accommodation bills, when properly disguised by dishonest traders, from bills which really are based on trade transactions or are drawn in anticipation of trade transactions which will certainly take place.

109. What is a security?

A security is that which is given in pledge for the performance of an engagement.

110. What does banking depend upon?

In all its forms it depends upon credit.

111. What is the duty of a banker?

He ought to act as an intermediate party between those who have money seeking employment, and those who have industry and enterprise, but want money to carry out their plans.

112. What are deposits?

Deposits are any public or private moneys entrusted to the care of bankers during business hours.

113. What effect has the deposit system upon the circulation?

It serves to economise the circulation, for bankers need only keep whatever reserve of bank-notes they find sufficient to meet the average demands of depositors; it also serves the same purpose to an enormous extent by making transfers from one account to another possible. The amount settled at the clearing house in London by transfer, during the year 1857, was £1,900,000,000, and all this without the employment of a single bank-note or sovereign.

114. Can deposits be said to form a part of the circulation?

No, for the same bank-note might possibly be lodged as a distinct deposit by two or three different depositors in the same week. Once a deposit is lodged in any bank, it becomes a debt owed by that bank; the amount of reserve in coin and bank-notes

which banks must hold to meet the average demands of depositors, certainly does form a part of the circulation, but this is a widely different thing from the total amount of deposits lodged in the banks.

115. What is panic?

It is a state of general alarm, arising from loss of credit.

116. What is external panic?

External panic is a panic arising from the exhaustion of bullion, consequent upon continued adverse exchanges.

117. What is internal panic?

Internal panic is a panic arising from the amount of bank-notes issued against other security than that of bullion being too large, and thereby causing doubts as to the convertibility of the bank-notes and an internal demand for bullion.

118. What is the best guard against external panic?

The only true way of guarding against external panic is raising the rate of interest slowly and steadily during a drain of bullion, till at last it will become cheaper to export other commodities, and the foreign exchanges will turn in our favour. Whenever we buy more than we sell in our dealings with other nations the foreign exchanges become adverse, and the effect is the same whether we buy commodities or invest in foreign securities—only another form of buying.

119. Is there any other means of guarding against external panic?

The Bank of England may strengthen the reserve by gradually realising securities, but a sudden realisation

of securities to a large amount is not to the advantage of the Bank or the public. ✓

120. Is there any remedy for internal panic?

As banking is dependent upon credit, our monetary system gives us no remedy for an internal panic except the strict limitation of the amount of bank-notes which we allow by law to be issued against other security than that of bullion. Sir Robert Peel assumed that the circulation in Great Britain had never been reduced so low as seventeen millions, and he also assumed that it will never again be reduced lower than it has been reduced in former times, and he came to the conclusion that in the worst circumstances he might safely allow fourteen million four hundred and seventy-five thousand pounds in bank-notes to be issued against other security than that of bullion, and still have three million pounds in gold, or thereabouts, necessarily remaining in the country. By his Act of 1844 he divided the Bank of England into two departments, the issue-department and the banking-department, and he permitted the issue-department to issue £14,475,000 in bank-notes against other security than that of bullion, any issue of bank-notes over this amount to necessitate a corresponding amount of bullion being received into the till of the issue-department, that is, that any bank-notes issued over the amount of £14,475,000 should be only so many certificates of the deposit of a corresponding amount of bullion. Sir Robert Peel allowed the Bank of England, and it alone, to buy bullion with its own notes, and thus increase its issues. On bullion being withdrawn from the till of the issue-department a precisely equal

amount of bank-notes must be cancelled by the Bank of England, so that the fluctuations in the amount of bank-notes issued over the fixed amount are regulated by the fluctuations in the amount of the bullion as it comes in and goes out of the country, according to the state of the foreign exchanges. Sir Robert Peel, at the same time, limited the issues of all the other existing banks in England to the exact average amount of bank-notes which each of them had in circulation during the space of twelve weeks preceding the 12th April, 1844; whatever this amount proved to be, no bank in England was to exceed it, whatever amount of gold they might hold in their tills. No London bank but the Bank of England can issue bank-notes, and no bank created after the sixth of May, 1844, can issue them either. In Scotland and Ireland bank-notes are not a legal tender; in England Bank of England notes are a legal tender everywhere except at the Bank of England and its branches; but there is this difference between the issues of the Scotch and Irish banks and the issues of the English banks (the Bank of England being excepted)—the latter cannot issue bank-notes above the fixed amount, but the former are allowed to issue over and above the fixed amount any amount of bank-notes they please, provided that for every bank-note so issued they possess a corresponding amount of sovereigns, either at their head offices, if they are Scotch banks, or at any of the four depôts chosen in Ireland for that purpose, if they are Irish. In Great Britain, then, the power of issue has been very strictly limited: but even with these limitations, if all holders of bank-notes were to present them simultaneously for

payment, their demands could not be met ; our monetary system must be dependent upon credit.

121. How does a bank increase its liabilities ?

By increasing its securities, and thus paying out bank-notes or coin again when deposited in the course of business.

122. Can a bank fail as a banking concern and yet maintain the convertibility of its notes ?

Certainly, if it invests too largely in securities, and those securities cannot be readily converted into cash.

123. How does a bank which is strictly limited in its power of issue obtain the money to invest in securities ?

By employing its customers' deposits and its own capital.

124. What makes it difficult to understand questions bearing on the issue of bank-notes ?

Because people do not clearly separate in their minds the business of issuing from that of banking ; issuing is creating money, banking is managing money after it has been issued.

125. What is the difference between paying bank-notes out of a bank in the ordinary course of business and reissuing bank-notes ?

Bank-notes deposited by customers in the ordinary course of business are already issued, and the bank pays them out again as so much money, merely keeping whatever amount is sufficient to meet the average demands made upon it ; reissuing bank-notes is issuing bank-notes again which have been tendered for payment in gold at the bank, and have been paid.

The object of the Act of 1844, was to secure that over and above a certain fixed amount of bank-notes issued against other security than that of bullion, any additional issue of bank-notes should be only so many certificates of the deposit of a corresponding amount of bullion, and, therefore, when bullion is withdrawn from the issue-department, a precisely similar amount of bank-notes ought to be cancelled.

126. Why is the permission to issue a certain amount of bank-notes against other security than that of bullion so very valuable ?

Because there is a double return of profit on capital thus invested ; first, the dividends arising from capital invested in profitable securities ; secondly, the interest payable on the bank-notes issued against those securities.

127. Is the power of issuing bank-notes over the fixed amount one which can be safely used by any other bank than the Bank of England ?

It is very doubtful whether it is a safe power in the hands of the Scotch and Irish banks, even strictly limited as they are at present ; they may and perhaps often do abuse the power granted to them.

128. Give an instance to show how the Scotch and Irish banks may avail themselves of the power of extra issue ?

Let us suppose that one of those banks has an authorised circulation of £100,000, and notes issued to that amount against other security than that of gold coin, and that it holds £25,000 in sovereigns, of which £15,000 are at its depôt or head office, and £10,000 in its own till ; by the Act of 1844 it might issue, if it

pleased, £25,000 in bank-notes, by transferring the £10,000 in sovereigns, which it holds in its own till, to its *depôt* or head office, but this would leave it no fund in gold coin to maintain the convertibility of its authorised issue. It issues, we will say, £20,000 in bank-notes above its fixed amount, and transfers £5000 in sovereigns to its head office. Its affairs now stand thus : it has a total circulation of £120,000 in bank-notes, and it holds £25,000 in sovereigns ; but as it has issued £20,000 in bank-notes over its fixed amount, it holds, in reality, but £5000 in sovereigns, against which no extra notes have been issued to meet its authorised issue of £100,000, this is one twentieth.

129. In what, then, does the unsoundness of such a system consist ?

In the necessity which it entails on any banks which follow it of evading the Act of 1844, though for very short intervals, should any pressure or difficulties arise. A part of the gold coin which the banks ought to keep at their *depôts* or head offices, by the Act of 1844, if they issue any bank-notes over their fixed amount, can be called upon, for a very short time, to help out the small fund of sovereigns which the banks keep in their own tills to maintain the convertibility of their authorised circulation, and against which they issue no extra notes. Temporary as such an evasion of the Act of 1844 is, it gives the banks time to realise securities and put their houses in order should there be signs of pressure.

130. Can the Scotch and Irish banks make a profit on their extra issues without evading the Act of 1844 ?

As long as the times are prosperous and there is no pressure, they can; they are able to keep a much larger note-circulation afloat, and to give much more accommodation in consequence of their extra issues. The profit is not made absolutely on the extra issues themselves, for there is the expense of issuing, the wear and tear of the notes, and a duty of seven shillings per cent. on every issue to be taken into account; but on the increased business which the extra issues bring to the bank. When monetary storms and pressure arise, the Act of 1844 must be temporarily evaded, and a risk of awakening an internal panic amongst their customers must be run.

131. Give an instance to show how large their indirect profit must be.

The Bank of France for some considerable time lately paid £16,000 a month in premiums, buying gold; this was, of course, in itself, a dead loss, but the bank considered it would be much more than compensated by the increase in its business, as it was able to keep a much larger note-circulation afloat, and to give much more accommodation than it would otherwise have done.

132. What has been often the ruin of joint-stock banks?

Making enormous advances to directors without proper security, and alluring depositors by high rates of interest in order to obtain the funds necessary for those advances.

133. Is there any real safeguard against commercial disasters?

No; the tide of trade must ebb and flow; adverse

circumstances, such as famine, or war, or undue speculation, will come upon us, whatever we do ; *but the Act of 1844 enables us to meet them better, because it preserves the convertibility of our paper-issues, and prevents the calamity of internal panic being added to external panic.*

134. What is the reserve in the Bank of England ?

It is the amount of bank-notes kept by the bank in the till of the banking-department, in order to meet the average demands of depositors, and all other demands whatever made on the bank. When a drain of bullion begins, as the bank cannot get at the notes which are in the hands of the public, it must come on the reserve, and cancel bank-notes taken from it as the bullion is being withdrawn from the issue-department. The bank must take care to protect the reserve in order to be able to meet the demands made on her, and when a drain of bullion is going on, the way to do this is by slowly and steadily raising the rate of interest as the bullion goes on diminishing, for money is in reality getting scarce, and more ought to be paid for its use. The bank may still further protect the reserve by realising as large an amount of securities as she can conveniently do without injury to herself, and without awakening alarm in the minds of the public.

135. What effect has this course of action on the foreign exchanges ?

A steady increase in the rate of interest will check the exportation of bullion, which is only exported because it happens to be the commodity which we can best spare at that time, and the contraction of the

circulation caused by the drain of bullion, and the corresponding withdrawal of bank-notes from the reserve, will soon lead to a fall of prices, which will induce foreign nations to buy more largely in our markets, and thus turn the foreign exchanges in our favour.

136. Is it wise of the Bank of England to refuse to discount for the discount houses?

Yes ; if the Bank of England were to discount for the discount houses, she would expose herself to the danger of their uniting in times of panic, presenting very large amounts of bills, and demanding their discount on the threat of stopping payment if they did not get it. Such a course of action would embarrass the bank, and might cause most serious mischief to the country. The discount houses are in the habit of taking money at call to an enormous amount, and whenever they have to pay a high rate of interest for it they can afford to keep but small cash-balances idle ; as long as the Bank of England discounted for them they discounted bills rather under the bank rate, in order to get the business into their hands, and if bad times came, and their cash was run out, they had a great mass of bills on hand ready to present to the bank for discount in a threatening manner. Now that the bank has wisely refused to discount for them, and money begins to show signs of scarcity, they are afraid to discount bills under the bank rate, and the bills, instead of being massed together in the hands of a phalanx of dealers, find their way to the Bank of England, the National Bank, or any other of the strong money-holders who are in a firmer position than the

discount houses, and not likely to increase the difficulties of the situation by any very sudden requirements.

137. What was the only check on the issues of the Bank of England before the Act of 1819?

The common rule of the bank, to discount only good mercantile bills at sixty days' date, at a fixed rate, which chanced to be about the market rate of interest at the time, with her extra issues of bank-notes. Notes issued on these terms were within some sort of limits; that is, they were not so pregnant with mischief as bank-notes issued under no checks at all, as the country banks issued them.

138. What is the plain principle involved in the matter?

That, however clever a person you may be, you cannot contrive to make anything plenty for a continuance which is in reality scarce. Bank-notes, which pretend to be of equal value with a fixed amount of standard gold, if they are to maintain a precisely equal value with that gold, must vary in amount exactly as the amount of gold itself varies; they must get scarce as gold gets scarce, and get plenty as gold gets plenty.

139. Can we prevent the temporary inconvenience which commerce in England suffers from when an advance in our rate of discount is caused by any sudden demand for money on the part of any nation who deals with us?

A certain amount of pressure and inconvenience is unavoidable, but by strictly adhering to the Act of 1844, and by steadily advancing the rate of interest

as our circulation contracts, the matter adjusts itself. No nation can obtain more from us than we owe them, and the more our rate of interest advances the more money is attracted to us from every quarter, for more can be had for it with us than elsewhere, so that pressure and inconvenience from this source cannot last long.

140. What is the gold and silver coin kept for in the banking-department?

It is kept for the convenience of customers; no bank-notes are issued against this gold coin, for then the bank-notes and gold against which they are issued would be in circulation at the same time. This amount is, like the stock in a jeweller's shop, necessary to the business of a bank, and the holding it is a dead loss.

141. If the currency were purely metallic, would that be a safeguard against panic?

Certainly not; as long as the deposit system prevailed, and auxiliary currency was in existence, bankers would then, as now, hold only whatever amount of gold they found necessary to meet the average demands of their customers; and if any extraordinary demand was to take place, they could only meet it by realising securities, which, in times of panic, must always be done at a loss.

142. Are there any valid objections to a great central issuing-establishment for the whole of Great Britain, under the control of the House of Commons?

The objections do not appear to be valid. Objectors say that it would be dangerous to allow so large an amount of bank-notes to be issued against

Government securities, and that it would render convertibility impossible in times of panic ; but, from the very nature of our monetary system, convertibility must always be impossible in times of panic, for if all the holders of bank-notes were to present them for payment in gold at one time their demands could not be met, the securities against which our limited amount of bank-notes are issued could not be converted into gold during such an emergency. As long as the amount of bank-notes permitted to be issued in Great Britain, against other security than that of bullion, is lower than the circulation could ever be reduced to in the worst possible circumstances, we are safer with our bank-notes issued against Government securities than we could be if they were issued against any other securities whatever other than bullion itself. Objectors also say that entrusting the business of issuing bank-notes to private enterprise secures more care, diligence, and economy in the management of that business, than if it was entrusted to a central issuing-establishment under the control of the House of Commons. The same might be said of any Government establishments whatever, but with less truth in this special instance, for the business of issuing bank-notes is purely mechanical, only requiring the very best preventives against the possibility of forgery that science can discover.

141. What decided advantage would be gained by this plan ?

It would then be perfectly safe to issue one-pound notes in England as well as in Scotland and Ireland, and the loss in wear and tear arising from the circu-

lation of sovereigns would be avoided; for gold would then lie in the tills of the issuing-establishment till needed for exportation when the foreign exchanges became adverse to us. There would be a danger arising from forgery, but this danger is now incurred with our present system, and the difficulty of forging the present Bank of England notes is very great. The profit arising from the issue of bank-notes against Government securities ought to form part of the revenue of the country. Bank-notes should be payable in gold on demand at the central issuing-establishment, or at any of its branches, which should exist in all the very large cities, and be a legal tender everywhere else. The House of Commons should decide what amount of bank-notes might be safely issued against other security than that of bullion, and no alteration in this amount should be possible without the consent of the House of Commons. The duty of such a central issuing-establishment would then be simply mechanical, and bullion should only be withdrawn on the presentation of a corresponding amount of bank-notes; so that it would be unnecessary to keep any reserve of bank-notes, as those who wanted to get bullion must previously obtain bank-notes themselves to the amount required.

144. Why should the regulation of such an establishment be entrusted to the House of Commons, and not to the Government alone?

Because putting it in the hands of the House of Commons would make it almost impossible to job the

issuing, or, in plain words, to make use of it for political purposes.

145. Are we ever likely to have such a system in Great Britain and Ireland?

No, for our present system works sufficiently well. It is only mentioned here because it is the best system for any country to adopt. Italy, for instance, which is being reconstructed, would do well and wisely in selecting it.

146. Are there any improvements which we could introduce into our present system as established by Sir Robert Peel?

Yes; there are three things which might be altered with advantage:

(1). Bank of England notes should be made a legal tender all over the United Kingdom except at the Bank of England and its branches, which should be properly distributed amongst the great towns.

(2) The power of extra issue should be taken from the Scotch and Irish banks.

(3) All banks which have now a power of issue entrusted to them should be allowed to issue one-pound notes.

The first of these measures would enable the Scotch and Irish banks to hold Bank of England notes instead of sovereigns, as the English country banks now do; the second would diminish considerably the profits of banking in Scotland and Ireland, but would place the banks in a firmer position to meet any difficulties; the third would give the convenience of one-pound notes to the English people, and save much wear and tear in the use of sovereigns.

147. What is the advantage of publishing the account of the Bank of England every week?

It enables capitalists and men of business, by comparing the account of one week with another, to make some guess at what the value of money is likely to be. They look to the amount of bullion held by the bank, and the state of the reserve.

148. Would a statement of the same kind, but relating only to the central issuing-establishment proposed, have the same effect?

Certainly; capitalists and men of business would then only look to the amount of bullion held each week by that establishment.

149. What does a contraction of the circulation lead to?

It leads to an increase in the value of the currency and a gradual fall of prices in consequence of that increase in value; we then sell more commodities to foreign nations than we did before, for they are encouraged to buy by the fall in prices, and this serves to turn the foreign exchanges in our favour.

150. What does an expansion of the circulation lead to?

It leads to a depreciation in the value of the currency and a gradual rise of prices; we then buy more commodities than we did from foreign nations, for we want to get rid of our spare cash.

151. Why is bullion exported?

Because it happens to be the cheapest commodity for us to export at that time—we can best spare it.

152. Why is bullion imported?

Because it happens to be the cheapest commodity

for foreign nations to send to us at the time it is imported; besides, when our circulation begins to get contracted, standard gold begins to increase in value at home, the rate of interest rises, and money comes to where it is most wanting and bears the highest price.

153. What is the difference between a fall in price and a fall in prices?

A fall in price is a fall in the price of some one kind of commodity, and is the result of some alteration in the proportion which the supply of that commodity in some particular market bears to the demand for it there. A fall of prices is a fall in all prices generally, and is therefore the result of some alteration in the value of gold, that being the standard of value by which we measure the value of all other commodities in Great Britain. The same difference exists between a rise of price and a rise of prices.

154. Has the state of the circulation any effect on the common alterations in prices which are constantly happening?

No; for these alterations in prices are not general, but confined to particular commodities; partial rises, or falls in the prices of particular commodities, arise from some alteration in the proportion which the supply of those commodities bears to the demand for them. A permanently altered state of the circulation will affect all prices without any exception, although other circumstances may frequently prevent the effect being visible.

155. What effect has the state of the circulation on the rate of interest in Great Britain?

Any expansion or contraction of the circulation will have a temporary effect on the rate of interest, causing it to rise or fall as money is plentiful or the reverse, but this effect can only last till the circulation returns to its natural state.

156. Will a steady fall in the value of gold all over the world cause the rate of interest to fall in Great Britain?

No; for the interest payable in gold will fall in value in exactly the same proportion as the principal lent in gold; temporary fluctuations in the rate of interest will continue to take place, whatever may be the change in the value of gold, for they depend upon the particular value which money has at a particular time in Great Britain, and not upon the general value of gold all over the world.

157. Will a steady fall in the value of gold have any effect on the circulation in Great Britain?

It will have the effect of numerically increasing the amount of currency in use in that country.

CHAPTER V.

GOLD.

158. Is there any such thing in reality as a standard of value which is subject to no variation?

No, there is not. If gold is chosen as the least variable standard, and consequently the one by which we are to measure the value of all other commodities, it follows that when gold rises in value all other commodities must fall, and when gold falls in value all other commodities must rise.

159. What does the value of gold depend upon?

It depends upon the proportion which the supply of gold bears to the demand for its employment. In considering the gold question we must bear in mind that the supply of gold may go on increasing for a long time without any alteration taking place in its value, *provided that the demand for its employment increases in the same proportion.*

160. What causes have been at work to increase the demand for gold during the last ten years?

A great stimulus to every kind of industry has been given by the best medium of exchange becoming more plenty than it was before, and the commerce of the world has been much more rapidly developed on account of that stimulus. *Fresh supplies of gold, up to a certain point, have not the effect of diminishing the value of gold, but of increasing the demand for its*

employment. The work of colonising new countries is carried on more rapidly, railways are constructed, packet services established, docks built—in short, every kind of capital is more readily created; and all this activity in business absorbs the gold as it arrives.

161. Up to what point do increasing supplies of gold give this stimulus to trade and business?

Till a marked rise in the price of all commodities but gold takes place; once this general rise in prices takes place, gold has begun to fall in value, and the only effect which further supplies of gold on the same scale can have is to cause a further steady increase in prices.

162. What separate causes may influence the exchangeable value of any commodity in a country where gold is the standard of value?

There are two causes. One is the proportion which the supply of that commodity in any particular market bears to the demand for its employment there, the other is the abundance or scarcity of gold itself in that market.

163. What must be the first signs of any fall in the value of gold?

A marked rise in the price of all other commodities must take place. Once Europe, for instance, is saturated with supplies of gold, she will soon begin to offer less commodities in exchange for an ounce of that metal than she formerly did, and gold will fall in value. Rises in the prices of particular commodities are often attributed to a fall in the value of gold, when they ought to be attributed to the supply of

those commodities being too small in proportion to the demand for their employment. Secondly, in those countries where gold is the standard of value there will be a steady numerical increase in the amount of currency required by the wants of trade.

164. Has this general rise of prices yet taken place?

The best authorities on the subject still dispute whether it has or not. We find Professor Cairnes stating in the 'Times,' "that a man with a fixed money income obtains now 20 per cent. less of commodities in general than he would have obtained had the gold discoveries never taken place." On the other hand, Mr. T. Crawford states in the same paper, "that there certainly has been no rise of price in any commodity of which the supply has been equal to the demand. There has been no rise in the price of iron, copper, tin, lead, zinc, or in rice, sugar, tea, coffee, wool, spices or dye-stuffs. In commodities there has even been a fall of price, the result of more economic processes of production."

165. If we cannot clearly prove that a general rise in prices all over the world has taken place, what conclusion must we come to?

We must conclude that gold has not yet fallen in value, and that therefore the demand for the employment of gold has been able to keep pace with the supply of that metal.

166. Must gold ultimately fall in value if the supplies continue on this present scale? Certainly; and the time when it will begin to fall in value cannot be far distant. No one can tell how much gold will fall

in value, as this depends upon the proportion which the supplies of that metal bear to the demand for their employment. Mr. Fawcett has lately stated, in a most valuable paper read before the British Association, "that the question as to the future depreciation of gold mainly depends upon the continuance of the extraordinary export of silver to India and China, which has taken place since 1851; if it should to a great extent be discontinued, then it seems absolutely certain that the value of gold will be rapidly depreciated."

167. How long will gold continue to be supplied?

As long as it pays the expenses of its production.

168. Will it then become necessary to alter the standard value of gold in Great Britain?

No; for as long as gold is the only standard of value it is measured in itself; and as nothing is charged on the coinage of gold, a coined ounce of standard gold is exactly equal in value to an uncoined ounce.

169. What effect will a steady fall in the value of gold have on those nations who have chosen gold as their standard of value?

Creditors with debts of old standing will lose, while their debtors will gain; any one who has a fixed income payable in money must lose; there will also be some distress amongst labourers of every kind, till their salaries have been sufficiently increased; *but all the loss we can sustain in Great Britain sinks into insignificance when compared with the gain which we must make in the diminution of the national debt. The British people have nothing to fear from the gold discoveries.*

170. Will those nations who have chosen silver as their standard of value gain equally with nations who have chosen gold?

They will, if either the supply of silver in the world increases exactly in the same ratio as the supply of gold, or if the demand for the employment of silver is sufficiently diminished by the introduction of gold to make silver fall in value in the same proportion as gold has fallen.

171. Why has gold been chosen as the standard of value in Great Britain in preference to silver?

Because it costs much less in carriage than silver; as coin, it is more durable and more difficult for a coiner to imitate; it is also more easily counted.

172. Mention some of the countries where silver has been chosen as the standard of value?

Silver is the standard of value in Belgium and Holland; in 1857, Austria and the Zolverein chose silver as their standard of value; the rouble of silver is the standard money of Russia. In 1835 the East India Company constituted silver money the only legal money in British India, and since 1852 gold has not been received in payment of the taxes there. Any payments made in China are either in silver dollars or silver ingots. In France the law of the 28th March, 1803, constituted the franc the legal money in that country; it specifies this coin as a piece of silver weighing five grammes, of which nine tenths are to be fine silver. Although this is the law still in France, and there is but one nominal standard of value, which is silver, there are in reality two standards of value, for debts in that country may be legally paid in

either gold or silver money, according to the option of the debtor.

173. Is there any inconvenience in having a double standard of value?

Yes; the dearest of the two metals, where there is a double standard, will be exported whenever there is a profit to be made on the excess of the marketable value of the one over the legal value of the other. In France, for instance, where a double standard practically exists, whenever the market price of gold falls to a certain point below its legal price in silver, there is a profit to be made by sending silver out of France in exchange for gold; on the other hand, whenever the market price of gold rises to a certain point above its legal price in silver, there is a profit to be made by sending gold out of France in exchange for silver.

174. What proof have we that this inconvenience has existed.

One kilogramme of gold (nine tenths pure) has been made by the French law of the 28th March, 1803, equal in value to fifteen and a half kilogrammes of silver (nine tenths fine). In the first part of the present century the average marketable value of one kilogramme of gold was above its legal value in silver, and gold almost disappeared from France, for foreign merchants paid their debts to French merchants in silver, as they could get more silver for one kilogramme of gold in their own markets than they could get by law in the French markets. For instance, if a kilogramme of gold was worth sixteen and a half kilogrammes of silver at Hamburg, and a Hamburg merchant, who

had gold, wanted to pay a debt to a French merchant, he changed his gold into silver at Hamburg, where he could get one kilogramme of silver more for it, and sent silver to France to pay his debt. French merchants, too, paid their debts to foreign merchants in gold as long as they could contrive to get a kilogramme of gold for fifteen kilogrammes and a half of silver at home, when its marketable price abroad was sixteen and a half. During the last ten years the average marketable value of one kilogramme of gold has been generally below its legal value in silver, and silver has been exported from France to a very large amount, for French merchants can get more gold for fifteen and a half kilogrammes of silver abroad than they can get by law at home, and foreign merchants will never pay their debts to French merchants in silver as long as they can get a kilogramme of gold for a less price in silver than that established by law in France. For instance, supposing the price of one kilogramme of gold to be fourteen and a half kilogrammes of silver at Hamburg, and that a Hamburg merchant, who has silver, owes a debt that can be paid by ten kilogrammes of gold to a French merchant, he buys the gold at Hamburg to send to France, for if he sent his silver to France he would have to send a hundred and fifty-five kilogrammes of silver, according to the French law, to pay his debt of ten kilogrammes of gold, whereas at Hamburg he can buy the ten kilogrammes of gold for one hundred and forty-five kilogrammes of silver, and save ten kilogrammes of silver in the transaction.

175. When one of the two precious metals is chosen

as a standard of value, what becomes advisable with regard to the other in a country where gold and silver money are both used?

It becomes advisable to use the coins made of the rejected metal as tokens, that is, to put a sufficient quantity of alloy in them to prevent speculators taking advantage of any rise or fall in the marketable value of the standard metal as compared with its legal value in the rejected metal.

176. What is meant by the term "tokens"?

Any denomination of money the intrinsic value of which is below the nominal value assigned to it by law, and which is not a legal tender above certain small, fixed amounts.

177. Which of the two precious metals is to be preferred as a standard of value?

In a country where bank-notes for very small amounts are permitted, as, for instance, the dollar notes in America, it matters little which of the two precious metals is chosen as the standard, provided there be but one standard. In a country where these small notes are not permitted gold is to be preferred to silver as the one standard. A double standard cannot be resorted to with advantage in any case.

178. Why is gold to be preferred to silver as a standard of value in countries where small bank-notes are not permitted?

Because it is found more convenient to make use of silver tokens than gold tokens. Silver tokens are the best suited to make up amounts, and form but a very inconsiderable part of the circulation in countries where gold is the standard; whereas, if gold tokens were

employed in countries where silver was the standard, they would enter largely into the circulation, and be made use of to pay heavy amounts, being more convenient than silver money ; the only way they could be kept at the nominal value assigned to them by law, would be, to make them always payable in silver on demand, and this would necessitate the expense of keeping large reserves of silver to enable the Government to keep faith with the people. Bank-notes would be to be preferred in most respects ; they would cost much less, and be much harder to imitate, if proper precautions against forgery were taken ; gold tokens are consequently never made use of, and in countries where silver is the standard gold coins are allowed to circulate at their marketable value as so much metal ; but this system has its inconveniences. Governments, where it is in force, must declare every six months, or oftener, at what price in silver they take gold coin in payment of the taxes. If gold falls below its declared value in silver, they lose on all the gold coin they hold in the public treasury ; if it rises above its declared value in silver, they gain, but their losses generally exceed their gains, as speculators are always on the watch to profit by any alteration in the value of gold ; there is an opening given for such speculations to their own officers, and the public, too, always pay in whichever coin costs them least. The uncertainty as to the precise value of the gold coin in circulation leads to higgling, delay, and vexation in every-day business transactions. Gold, therefore, is to be preferred as the standard of value in countries where small bank-notes are not permitted by law.

179. Has gold been falling in value when compared with silver ?

The diminution in the value of gold as compared with silver is hardly perceptible, nor is it likely to be permanent. The two precious metals will always fluctuate a little in their respective values from accidental circumstances; for instance, the late war in China tended to enhance temporarily the value of silver; but if gold begins to fall decidedly in value, it will drag silver down along with it. There will be two causes at work to prevent silver rising in price along with all the other commodities which are affected by the fall in the value of gold, namely, an increased activity in the silver mines of South America, and a diminished demand for the employment of silver as money. If the supply from the silver mines remained stationary, and gold was to fall in value, silver would rise in price, unless the introduction of extra supplies of gold in some way diminished the demand for the employment of silver.

180. Is there any reason for thinking that the supply of silver will increase for the future ?

Yes; the principal mines on which the world depends for its supply of silver are in South America; they are of vast extent, and pronounced by scientific men to be inexhaustible; but the supply of silver from them till lately was limited by the dearness of mercury, which is used to extract the silver from the stone in which it is found by amalgamation. In 1850 a mine of mercury, called the New Almaden, was discovered in California, and other large mines have since been discovered in the Rocky Mountains,

so that mercury has fallen greatly in price. This, along with improved machinery and increased facility of transport, will have the effect of steadily increasing the supply of silver from South America.

181. Is there any reason for thinking that, as gold falls in value, the demand for the employment of silver will diminish?

Yes. It must be remembered that a continued expansion of the circulation of any particular country will produce a depreciation in the value of the currency of that country, whether silver or gold be the standard of value chosen there. Gold coin is not excluded from the most of those countries where silver is the standard of value, but can circulate at its market price as so much metal; and once it is admitted to form a part of the currency, it helps to expand the circulation just as much as it would do in a country where gold was the standard. In a country where silver is the standard gold coin must meet at first with great obstacles, from its not having a fixed value, before it can enter largely into the circulation; but as prices rise, the inconvenience of having gold coin in circulation without a fixed value will be so severely felt, that the Government will be at last obliged to fix its value, as lately happened in Belgium with regard to French Napoleons; and gold coin will not only form a considerable part of the currency, but will soon begin to take the place of silver, from its superior convenience as money. Heavy payments, too, will be made more frequently in gold bullion, and the effect will be to diminish the demand for the employment of silver.

182. If any particular country where silver was the standard, in order to preserve its currency from depreciation in value, was to refuse altogether to receive gold in payment, what would happen?

Silver would be attracted, after a little time had elapsed, from those countries where gold was the standard, or was admitted to form a part of the currency, and where, consequently, the currency was depreciated in value, to this particular country where the currency was not depreciated in value; and this influx of silver would continue till this last currency became equally depreciated in value with the others, for every one would bring their silver to the market where they could get most for it. •

183. To what conclusion, then, must we come?

That as gold falls in value, there will not only be a general rise of prices in countries where gold is the standard, but there will also be a general rise of prices in countries where silver is the standard, or, in other words, that gold in its fall will drag down silver along with it. Dr. Adam Smith alludes to the peculiar connexion existing between gold and silver in the second volume of the 'Wealth of Nations,' where he says—“Gold and silver are to be bought for a certain price, like all other commodities; and as they are the price of all other commodities, so all other commodities are the price of those metals.” This fall in the value of silver, being exactly proportionate to the fall in the value of gold, will be imperceptible as far as the two precious metals are concerned; it can only be ascertained by a rise in the price of all other commodities.

184. What is an assay report?

An account in which the assayer states the purity of the gold or silver which he has assayed. As the carat weights in which the purity of gold is reckoned are themselves reckoned in troy weight, we will give a table of troy weight, and then a table of carat weight as reckoned in troy weight. Troy weight:—24 grains = 1 pennyweight, 20 pennyweights = 1 ounce, 12 ounces = 1 pound. Carat weight:—1 carat = 10 pennyweights troy, 1 carat grain = 2 pennyweights 12 grains troy. There are, therefore, 4 carat grains of 60 grains troy each in every carat, and 24 carats in the pound troy. Fine gold is gold which is 24 carats fine. Standard gold is gold 22 carats fine, that is, gold of which $\frac{22}{24}$ ths are fine gold. An eighth of a carat grain (or $7\frac{1}{2}$ grains troy) is the smallest division of carat weight which the assayers recognise in making their reports, so that any fraction less than an eighth is left out in every pound troy of gold which they assay. If the gold to be assayed is of any number of carats, or fractions of carats down to an eighth of a carat grain, less than 22 carats, the assayer reports it to be so many carats or fractions of carats worse than standard gold; if the gold to be assayed is above 22 carats and under 24, he reports it to be so much better than standard gold by its exact excess above 22 carats; but whether the gold to be assayed be better or worse than standard gold, the assayer takes no notice of any fraction of a carat smaller than the eighth of a carat grain. The comparative difference of any gold with regard to the standard metal is called its betterness or worseness. The worseness of gold is calculated to the nearest grain.

185. How do you find the quantity of standard gold in a given quantity of gold, either better or worse than standard gold, as it may be reported?

Multiply the given quantity of gold by the number of carats in the report. Take parts for the grains, quarter grains, or eighths of grains (should there be fractions of a carat in the report), add these parts to the sum previously obtained by multiplication. Divide the sum total by 22 (in practice it is easier to divide first by 2 and then by 11), the quotient will be the betterness or worseness of the gold, according to the report; add it to the given quantity of gold if it be a betterness, and subtract it therefrom if it be a worseness, and the remainder will be the quantity of standard gold.

186. What is the quantity of standard metal contained in 21 lbs. 10 ozs. 18 dwts. 12 grs. of gold reported worse 1 carat $3\frac{1}{4}$ grains?

lbs. ozs. dwts. grs.				
21	11	18	12	for one carat.
10	11	9	6	for two grains.
5	5	14	15	for one grain.
1	4	8	16	for a quarter grain.
39	8	11	1	

We have here divided what we put down for one carat by two, in order to find what to put down for two grains (or half a carat); we have repeated the same process to find what to put down for one grain and we have divided what we put down for one grain by

four, in order to find what to put down for a quarter grain. The sum total is 39 lbs. 8 ozs. 11 dwts. 1 gr.

We now divide this first by 2, and then by 11 :

	lbs.	ozs.	dwts.	grs.
	39	8	11	1
11	19	10	5	12
	1	9	13	5

And this gives 1 lb. 9 ozs. 13 dwts. 5 grs. as the worseness of the gold given. Subtract this from the original quantity given :

lbs.	ozs.	dwts.	grs.
21	10	18	12
1	9	13	5
20	1	5	7

This remainder is the quantity of standard gold required.

187. How do you obtain the quantity of fine gold contained in a certain amount of standard gold ?

By subtracting one twelfth from the quantity of standard metal, a twelfth part, or $\frac{1}{12}$, being the difference between fine gold and standard gold ?

188. How is gold valued which is either better or worse than standard gold ?

Its quantity in standard gold is found, and then it is valued at the standard price per ounce ; or it may be valued according to the report without putting it into standard gold, by adding three shillings and sixpence per carat, and tenpence halfpenny per grain

to the standard price, if it is better than standard gold; or by subtracting four shillings per carat and one shilling per grain if it is worse, the price per carat for the worseness being raised to pay for the necessary refining. Thus, an ounce of 18 carat gold, being 4 carats worse, would be valued at sixteen shillings less than standard price, or £3 1s. 10½*d.* instead of £3 17s. 10½*d.*

189. How is the standard weight of a given quantity of silver found?

Fine silver is silver $\frac{222}{224}$ of which are pure silver, or in every 12 ozs. of fine silver there must be 11 ozs. 2 dwts. of pure silver. The ounce used is the ounce troy of 20 dwts., and the pennyweight is divided into half-pennyweights. Multiply the given quantity of silver by the number of pennyweights in the report; take a part for the half-pennyweight (if there be one in the report), add this to the sum obtained by multiplication, and divide the sum total by 222; the quotient will be the betterness or worseness, which you can then add or subtract, according to the report, from the given quantity of silver. The standard weight of silver is generally calculated to one pennyweight.

190. What is the quantity of standard metal contained in 27 lbs. 10 ozs. 10 dwts. of silver reported worse 1 oz. 17 dwts?

Multiply 27 lbs. 10 oz. 10 dwts. by 37, the number of pennyweights in the report. This gives 1031 lbs. 4 ozs. 10 dwts. Divide this by 222:

$$\begin{array}{r} 222 \overline{) 1031 \text{ lbs. } 4 \text{ ozs. } 10 \text{ dwts.}} \\ \underline{4 \text{ lbs. } 7 \text{ ozs. } 15 \text{ dwts.}} \end{array}$$

4 lbs. 7 ozs. 15 dwts. is the worseness. Subtract this from 27 lbs. 10 ozs. 10 dwts. the given quantity of silver, and the remainder is the standard weight required—23 lbs. 2 ozs. 15 dwts.

191. How is the quantity of pure silver contained in a given quantity of silver found?

Find the standard weight, multiply this by 37, and divide by 40, for standard silver is $\frac{37}{40}$ or $\frac{37}{40}$ fine.

192. How is the value of silver to be ascertained?

There is no fixed value for silver; the price fluctuates according to the state of the markets. Silver coin is generally reckoned at five shillings per ounce, and bar silver from South America at from 60*d.* to 62*d.* per ounce. The Sysee silver of China is the purest which has come to Great Britain.

193. Give an account of the present coinage in Great Britain.

Since 1816 gold has been the standard of value in Great Britain, and much care is taken to secure a proper gold coinage. Any one may bring gold to the mint to be coined, provided it be not less than £10,000 in value, and that it has first been assayed by the Royal Assayer, and obtained his certificate; and the mint is bound to return in coin, to the last grain, exactly the weight of standard metal which it has received, without any charge being made to the bearer. Since 1837 no private individuals have availed themselves of this privilege, and the Bank of England alone sends gold to the mint to be coined. She buys gold with her own bank-notes, but will buy none which has not been previously assayed by the Assayer Royal; she gives £3 17*s.* 9*d.* per ounce for all the standard

gold brought to her, reserving a penny-halfpenny on each ounce for herself, £3 17s. 10½*d.* being the exact legal price at the mint; what is called the mint price of gold is merely a declaration of the weight of metal of a fixed purity which the law requires to be in our gold coin, for instance 40 lbs. of 22 carat gold must be divided into 1869 coins called sovereigns. The assayer, when he has assayed the gold, reports to an eighth of a carat grain in the pound troy, leaving out any smaller fractions to the loss of the seller, who gets so much the less for his gold from the bank; but these fractions are regained in the mint, as it must return the exact standard weight of metal which it has received, to the last grain, in coin. The Bank of England, therefore, has a double profit in buying gold—the penny-halfpenny which it keeps back on each ounce, and any fractions which the seller may have lost on having his gold assayed, but which the bank regains from the mint on having the gold coined.

The reason why private individuals do not have gold coined on their own account seems to be that the loss by the delay in the coinage exceeds the loss on selling to the Bank of England; there is but one mint in Great Britain, whereas there are seven in France. There is an admixture of one twelfth of alloy in the English gold-coinage; this proportion is considered to amalgamate better with the gold in cooling than the French preparation of one tenth, and to produce in consequence a more durable kind of coin. A sovereign weighs 123 $\frac{171}{323}$ grains full weight, but a deficiency of $\frac{1}{4}$ grain $\frac{171}{623}$ is tolerated in circulation; that is, if a

sovereign does not weigh $122\frac{3}{4}$ grains, it is considered light. A half-sovereign is considered light if it weighs less than $61\frac{1}{2}$ grains. Light sovereigns, will, however, continue some time in circulation through the country till they are remarked upon as not being of full weight, when they cease to be legal money, and the last holder must get rid of them at a loss to himself. When sovereigns find their way to the different London banks, being deposited by customers, such as railway companies, houses of business, &c., they are sent in bags to the Bank of England, where machinery is provided to weigh each separate sovereign; those of full weight are cast into one box, and those that are light into another; the banks who have sent the bags are charged with the loss on these last, and they are at once transferred to other machinery, which cuts them in two, before they are melted again. The number of sovereigns weighed daily at the Bank of England by machinery varies from 60,000 to 70,000; there are ten machines at work, and each is able to test thirty sovereigns per minute with the nicest exactness. Light gold coin, therefore, never remains very long in circulation. The average yearly loss on the wear and tear of gold coin is considered in round numbers to be 1 in 950. Silver coin in great Britain is not a legal tender above 40s.; silver, of which 222 parts are pure silver and 18 parts alloy, is standard silver, and a pound troy of such silver is coined into 66s., whereas, if the price of silver be reckoned at 62d. per ounce, and this is above the average price, it ought to be coined into 62s. The 4s. are retained by Government as a seignorage to defray the expense of the coinage and to

keep it in repair, for Government are bound to give good silver coin in exchange for any which may have sustained injury in circulation, provided that injury has not occasioned the defacement of the coin, that is to say, as long as enough of the superscription remains to warrant to what country the coin belongs. The Bank of England notifies to Government when silver coin is wanting, and they employ brokers to buy silver in the open market; it is then coined and sent to the Bank of England, and as it is absorbed in the circulation Government is gradually repaid by the bank. If silver was to rise in value much, as compared with gold, Government would be compelled to put less silver in its coins than it does now, for if it continued to coin the pound troy of standard silver into 66s., it would pay speculators to melt the silver coin; for instance, if silver rose to 6s. per ounce, there would be a profit of 4s. or 5s. on the melting of every seventy-two, and so on. The average yearly loss in wear and tear of silver coin is considered in round numbers to be 1 in 200. The copper coinage has been remodelled, and a bronze coinage, like that in France, introduced. Bronze or copper money is not a legal tender for more than 12d.

194. Give some account of the coinage of France.

The coinage of France is on the decimal system. The franc is made by law of the 28th March, 1803, the sole measure of value, and must contain five grammes of silver, of which nine tenths are to be fine silver, and one tenth alloy. The same proportion of alloy is used in the gold coinage. By the same law the proportion between the respective values of silver and gold is

fixed to be as 1 is to $15\frac{1}{2}$, or 1 kilogramme of gold to $15\frac{1}{2}$ kilogrammes of silver. The expense of the coinage is borne by whoever brings the metal to the mint whether it be silver or gold ; a kilogramme of silver is coined into 200 francs, at a charge of 1 franc 50 centimes, and a kilogramme of gold is coined into 155 Napoleons, at a charge of 6 francs 70 centimes ; to coin, therefore, its equivalent in silver, or $15\frac{1}{2}$ kilogrammes of silver, costs 23 francs 25 centimes, a difference of 16 francs 55 centimes in favour of gold coin. The French Government, in 1803, believed that it had established one sole measure of value, to wit, the franc, whereas, by permitting a double-paying medium, with a fixed proportion between the two precious metals, it practically created a double standard of value. As long as the marketable value of one kilogramme of gold estimated in silver, continued above its legal value in silver in France, the French people used silver money, for the simple reason that it cost them less than gold ; but once the marketable value of one kilogramme of gold, estimated in silver, fell below its legal value in silver in France, the French people began to use gold coin instead of silver, for the simple reason that it cost them less than silver. The dearest of the two metals (when there is a practical double standard) will always be exported. The bronze coins are tokens like the British copper money, and are not a legal tender over 50 centimes.

CHAPTER VI.

THE FOREIGN EXCHANGES.

195. Give an instance of exchange when it is said to be favorable, when adverse, and when at par between two places in different countries.

(1) When you pay a sum of money in London which contains ten ounces of standard gold by mintage valuation, for a bill which you can have cashed in New York for a sum of money which contains an equal quantity of standard gold by mintage valuation, exchange is said to be at par between London and New York.

(2) When you pay less in London for such a bill, it is said to be at a discount, and exchange is said to be in favour of London, and against New York.

(3) When you pay more in London for such a bill, it is said to be at a premium, and exchange is said to be against London, and in favour of New York.

The true par of exchange, therefore, between any two places in different countries, is the being able to obtain a quantity of standard gold or silver, when you cash a bill in the one place, exactly equal to the quantity of standard gold or silver which you have paid for the same bill in the other; it is *not* the merely obtaining an equal nominal amount of money, for if the currency of any country is much depreciated in value from over-issues of paper money or a base coinage, so much

the more of it will be required to make up the necessary amount, and this in exact proportion to the extent of the depreciation in value which has taken place.

196. What is a rate of exchange?

It is the price of the money of any one country reckoned in the money of any other country.

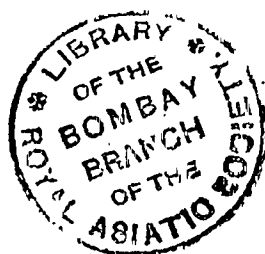
197. What is the course of exchange?

The fluctuations in the rate of exchange above and below what is considered to be par between any two places in different countries are called the course of exchange between those places. When two countries have one and the same standard the par of exchange between them is on a solid, fixed basis; but when one country has gold for its standard and the other has silver, the number of ounces of standard silver in the one country which are to be considered equal to an ounce of standard gold in the other must first be fixed, and the par of exchange is on a basis which must fluctuate slightly as the relative proportion in value which the precious metals maintain towards each other fluctuates.

198. Explain the course of exchange as quoted in the newspapers.

If the rate of exchange is considered with regard to any two places, it will be seen that the price given for any particular sum of money may vary, but that the particular sum of money to be bought is always the same, though more or less may be given for it. For instance, Paris may give London 25 francs 30 centimes or 25 francs 50 centimes for a pound sterling, but whatever Paris gives, the pound ster-

ling is fixed and invariable, though the price paid for it may vary. The place which pays a variable price in its own money for a fixed sum in the money of some other place is said to give so much of its own money, while the place to whom that variable price is paid for the fixed sum in its own money is said to receive so much of the money of the other place ; thus, London gives Palermo 119½ pence for one onza, but receives 6 dollars 25 silver groschen from Berlin for a pound sterling.



COURSE OF EXCHANGE.

MONEY AT	LONDON RECEIVES FROM, OR GIVES TO,	Fixed Rate.
Amsterdam, 5 cents. = 1 stiver, 20 stivers = 1 guilder.	Amsterdam, 12 florins 3 stivers ...	... for one pound sterling.
Berlin, 30 silver groschen = 1 thaler.	Berlin, 6 dollars 25 silver groschen...	... for one pound sterling.
Calcutta, 12 pie = 1 anna, 16 annas = 1 rupee.	Calcutta, 23 pence English ...	... for one rupee.
Christiania, 120 skilling = 1 specie-daler.	Christiania, 4 specie daler 30 skilling ...	... for one pound sterling.
Constantinople, 40 paras = 1 piastre, 100 piastres = 1 medjidie.	Constantinople, 140 piastres ...	... for one pound sterling.
Copenhagen, 96 skilling = 1 Rigsbank daler.	Copenhagen, 9 Rigsbank daler 10 skilling ...	... for one pound sterling.
Frankfort, 60 Kreuzer = 1 Zolverein florin.	Frankfort, 121 Zolverein florins ...	... for ten pounds sterling.
Genoa, 100 centesimi = 1 lira Italiana.	Genoa, 25 lira 35 centesimi ...	... for one pound sterling.
Hamburg, 12 pfenning = 1 schilling, 16 schilling = 1 mark.	Hamburg, 18 mark 12 schilling ...	... for one pound sterling.
Lisbon, 1000 reis = 1 milreis.	Lisbon, 53½ pence English ...	... for one milreis.
Madrid, 84 maravedis = 1 real, 20 reales = 1 duro.	Madrid, 50½ pence English ...	... for one hard dollar.
Naples, 10 grani = 1 carlino, 10 carlini = 1 ducat.	Naples, 39½ pence English ...	... for one ducat.
New York, 100 cents = 1 dollar (the almighty dollar).	New York, 47½ pence English...	... for one dollar.
Palermo, 20 grani = 1 taro, 30 tari = 1 onza.	Palermo, 119½ pence English ...	... for one onza.
Paris, 100 centimes = 1 franc.	Paris, 25 francs 21 centimes ...	... for one pound sterling.
Pekin, 1 tael = 10 mace = 100 candareens = 1000 cash.	Pekin, 78½ pence English...	... for a thousand cash.
Rio di Janeiro, 1000 reis = 1 milreis.	Rio di Janeiro, 30 pence English ...	... for one milreis.
Rome, 10 bajocchi = 1 paolo, 10 paoli = 1 scudo Romano.	Rome, 46 paoli ...	... for one pound sterling.
St. Petersburg, 100 copek = 1 silver rouble.	St. Petersburg, 38½ pence English...	... for one silver rouble.
Stockholm, 12 runstyken = 1 skilling, 48 skillingar = 1 daler in banco.	Stockholm, 12 dalers in banco, 1 skilling ...	... for one pound sterling.
Venice, 100 centesimi = 1 lira Austriaca, 3 lire Austriache = 1 florin Austriaco.	Venice, 47 pence English ...	... for six lire Austriache.
Vienna, 100 Kreuzer = 1 gulden or florin.	Vienna, 13 florins 70 kreuzer ...	... for one pound sterling.

The variable rates are generally only given in the published quotations; for instance, Madrid, 3 months 48½ to ½; Palermo, 3 months 117½ to ½; Oporto, ninety days 52½ to ½, and so on.

199. How many kinds of exchanges are there?

There are two—direct, and arbitrated. Direct exchange is the operation of exchange between any two places in different countries, without the medium of any other place, as between London and Paris. Arbitrated exchange is the operation of exchange between any two places in different countries, through the medium of some other place or places in other countries.

200. What is the object of bankers and cambists in all these operations?

It is to choose whatever mode of payment costs them least; for remittances abroad they will choose whatever mode of payment gives the greatest sum in foreign money for a given sum in the money of their own country, and for returns to their own country they will choose whatever mode gives the greatest sum in the money of their own country for a given sum in the money of any foreign country. What is bad, therefore, for remittances, will be good for returns, and *vice versa*; for instance, the rate of 25 francs 70 centimes per £1 is a good rate for remittance to Paris from London, because you get more foreign money than usual for a given sum of your own money, but it is a bad rate for a return of money to London, because you get less of your own money than usual for a given amount of foreign money. The terms cash and bills are generally used instead of remittances and returns; thus, when 25 francs 70 centimes can be had for £1 in Paris, it is said to be better for cash in London, that is, the laying out of cash in London, and worse for bills or receiving returns from Paris, because less

English money can be then obtained for a given sum of French money.

201. Is there any limit to the extent of the rise above or the fall below par, as the exchange between London and any other place is favorable, or the reverse?

In ordinary cases the limit is the total expense of transmitting bullion from the one place to the other; by total expense we do not mean the mere carriage of bullion, for, except in times of war, this will vary hardly at all, but we mean all charges whatever connected with the transmission of bullion, including the calculation of the rates of interest obtainable for the money represented by the bullion in the country it is sent from and in the country it is sent to. If a merchant had to pay *more* for a bill on any place than it would cost him to transmit bullion or coin to that place, he would not buy the bill, but would send the bullion or coin instead; on the other hand, a banker or cambist who holds a bill will not generally take *less* for it than it would cost him to send it to the place on which it is drawn, have it cashed there, and the proceeds sent to him in coin or bullion. The higher the rate of interest rises at home the more it will cost to send bullion or coin abroad, as the price which could have been had for its use as money at home must be taken into consideration, and, except in the case of a loan, it will only be transmitted from one country to another when this is the cheapest mode for the debtor-country to satisfy its foreign creditors, either from its having superfluous cash at home or

from its having no other mode of payment immediately available for the purpose.

202. What is the natural tendency of bullion?

It is to flow towards those markets where the best price can be obtained for it, *so that the raising of the rate of interest to a very high point in any country has the double effect of preventing the exportation of the bullion or coin which is in that country and of attracting bullion or coin to it from foreign countries.*

203. What generally regulates the rise above or the fall below par, which is constantly going on, within the limit which we previously mentioned, between any two places in different countries?

The proportion which exists between the number of bills on either of those places which chance to be on sale in their respective markets, and the demand for their employment. If, for instance, there be many bills on London for sale at New York, and but little demand for them, bills on London will fall at New York till they reach the specie-importing point, that is to say till they fall to what it would cost the owners of them to get them cashed in London, and in ordinary times they will fall no lower; on the other hand, if there be few bills on London for sale at New York, and great demand for them, bills on London will rise at New York till they reach the specie-exporting point, that is to say, till they rise to what it would cost to transmit bullion or coin instead of making use of bills, and in the general run of instances they will not rise above this point. The price of bills, therefore, depends upon supply and demand, like the price of any other mer-

chandise, but it does not generally rise higher or fall lower than a certain point on either side of the par of exchange, as above or below this point the demand for bills ceases, and specie is imported or exported, as the case may be.

204. What other element affects the price of bills?

The credit of the drawer, acceptor, and indorsers of the bills. A bill backed by first-class names will always command a higher price than a bill backed by second-class names; anything which tends to diminish the credit of any country will at once lower the price of all bills drawn upon it.

205. In what case may the price of bills fall below the specie-importing point?

In any case of sudden panic where the holders of the bills cannot afford to wait sufficiently long to get the bills cashed in the country they are drawn upon. The capitalists who buy the bills under such circumstances make so much extra profit, but they must lose the use of the money which they give for the bills during the interim.

206. In what case may the price of bills rise above the specie-exporting point?

In any country where the currency is much depreciated from over issues of paper money, and where the export of bullion is forbidden by law, the price of bills may rise much above the specie-exporting point whenever the merchants of that country have no produce of any kind available to export as a means of paying their debts.

207. What are bills drawn in blank?

Bills which are not based upon any actual trade trans-

actions between any two different countries, but which are either drawn in anticipation of the ordinary trade transactions between those countries or are drawn as a means of obtaining the money which is paid as their price ; in either case they may be called foreign accommodation bills. They have an important influence on the state of the foreign exchanges, as there is generally a large amount of them afloat.

208. When the exchange between London and New York is favorable to New York, and bills on London are near the specie-importing point, what effect has this on the exporting and importing merchants in New York ?

The importing merchants have a decided advantage over the exporting merchants, for they can buy the exporter's bills at a discount, and thus pay for their own importations.

209. What effect has the same state of the exchange on the exporting and importing merchants in London ?

The exporting merchants have a decided advantage over the importing merchants, as they can sell the bills which they draw on New York at a premium, while the importers must either pay a premium for the bills they want or be at the cost of transmitting coin or bullion ?

210. What is the only means which any particular country possess of regulating the foreign exchanges, as far as it is itself concerned, supposing, that its currency is not depreciated in value from over issues of paper money, or a base coinage ?

The raising or lowering the rate of interest, accord-

ing to its state of debt or credit with all other countries—

(1) When it owes more to other countries, taking all its transactions together, than they owe to it, an efflux of coin or bullion soon takes place, and the rate of interest must then be raised at home; this will have the effect of restricting its purchases in foreign countries and increasing its sales at home for exportation, and the foreign exchanges will very slowly become more favorable.

(2) When other countries owe more to it, taking all their mutual transactions into account, than it owes to them, an influx of coin or bullion soon takes place, and the rate of interest will then fall of itself at home, this will have the effect of increasing its purchases in foreign countries and restricting its sales at home for exportation, and the foreign exchanges will slowly become less favorable. The state of the foreign exchanges, as far as any such country is concerned, depends upon its state of debt or credit with all other countries.

CHAPTER VII.

DEPRECIATION OF THE CURRENCY.

211. What is meant by the term depreciation of the currency?

A diminution in its purchasing power. Whatever substance may be used as currency, an excessive quantity of it (more than is required by the wants of the community), necessarily causes a diminution in its purchasing power.

212. Could a currency then, consisting of the best gold-coin only, be depreciated?

Certainly; provided that the exportation of gold could be *altogether* prevented, the amount of currency in use would soon become greater than what was required by the wants of the community, and its purchasing power would diminish in the same proportion.

213. What prevents a properly regulated currency from being depreciated?

A very large proportion of such a currency possesses an intrinsic value, and can be exported to other countries whenever it is in excess of the exact amount required by the wants of the community to whom it belongs.

214. What is the principal cause of depreciation in currencies at present?

The age for uttering base coin by Government authority is gone by, and a more polite way of obtaining money is at present in fashion, viz., unlimited issues of Government bank-notes which are inconvertible, and at the same time a legal tender. We use the term good coin in this chapter in contradistinction to base coin, and as applicable to either gold or silver money whichever be the standard of value chosen.

215. On what does the purchasing power of such notes depend?

It depends on the quantity of them that is issued and remains in circulation, and however wealthy the government may be that issues them, any large increase in their amount soon produces a diminution in their purchasing power.

216. How can the extent of this diminution be shown?

By the difference in the price of any article when paid for in good coin, or in inconvertible paper notes, or in other words by the relative value of the inconvertible paper when compared with the standard money of the country whether it be gold or silver coin. Thus, in America, at present 170 inconvertible legal tender paper dollars are required to purchase what 100 gold dollars can readily purchase, while in Austria about 115 legal tender inconvertible paper gulden are required to purchase what 100 silver gulden can purchase in the same market.

217. In what way then must we look on an inconvertible legal tender paper currency?

As a distinct and independent substance made use

of as currency; gold and silver under such circumstances assume more and more the character of merchandise, while they lose the character of money.

218. On what does the amount of currency in use in any country depend when that currency is not depreciated, and when the foreign exchanges are either at par, or but slightly affecting the circulation?

It depends on the exact amount which the wants of trade require in that country; its Government may determine what proportion of this amount shall exist in the form of bank-notes issued against other security than that of good coin, or bullion, and what proportion shall exist in either bank-notes issued against good coin, or bullion, or in good coin itself, but further than this they cannot go, for if they once attempt to increase the amount of currency above what we may call its natural limits, by extra issues of paper-money, a diminution in its purchasing power will infallibly take place. They could not increase the total amount of currency in any other way but by over issues of paper-money, if we except the uttering of base coin, for it has been found impossible to prevent the exportation of gold or silver and any good coin, which was not required at home, would soon be exported. Let us suppose seventy millions sterling to be the exact amount of currency which the wants of trade require in some particular country, when the foreign exchanges are but slightly affecting the circulation, then the Government of that country might, if they chose, have sixty millions of this amount in bank-notes issued against other security than that of bullion,

or good coin, and as long as the same state of the foreign exchanges continued, this currency need not necessarily be depreciated, and the bank-notes might be apparently convertible.

219. What would be the danger then in following such a system?

If the foreign exchanges became unfavorable and gold or silver were required for exportation, there would be six sevenths of the circulation of that country in the form of promises to pay certain quantities of the precious metals, and but one seventh of the actual substance required for payment to meet all the promises. Oh monstrous! but one halfpenny-worth of bread to this intolerable deal of sack!

220. What is one of the errors into which the opponents of the present currency principle often fall?

They forget that we have chosen gold as our only standard of value in Great Britain, and that prices are consequently but the quantities of gold which each article can command when exchanged. Mr. Macleod, in his excellent work on the 'Theory and Practice of Banking,' speaks of the great banking fallacy of the present day, that the issues of banks should be rigidly restricted in amount to what would be the amount of gold-coin if they were not in existence; a little further on, he says, "if, therefore, when to a previously existing gold currency there is added a paper currency, if new fields of industry are opened up, if new manufactures are started, if lands are reclaimed, they will absorb a currency far greater in amount than would have been sufficient if they had not been

attempted, and so operations may be generated of a far greater amount than if there was nothing but a gold and silver currency. Now it seems so obvious a truism, that, if while any given amount of currency be required to conduct the operations of a country, and any given increment be made to that currency, then if the increased operations which that increment of currency gives rise to are in the same proportion to it, as the operations previously carried on were to the previously existing currency, the value of the whole currency will not be altered, that it seems incredible that it should be required to enunciate it, and moreover that it should be *fatal to the leading banking principle of the day.*" The value of the whole currency under such circumstances might not perhaps be altered if estimated in any commodity but standard gold, but the paper part of the currency when brought to this touchstone could not maintain a precisely equal value with that exact amount of standard gold which it purported to represent for this simple reason, that when gold became wanting for exportation there would be more paper notes in circulation than could by any possibility be converted into their equivalent in gold, and promises to pay being then easier obtained than actual payments in gold, the paper currency would be depreciated however much it was needed by the operations of trade. If the gold discoveries in California and Australia had never taken place, the trading operations of the world would certainly have gone on increasing, though at a far slower rate; gold would have become slowly more valuable and prices would have fallen all over the

world; nor could gold under such circumstances have been prevented slowly rising in value by any issues whatever of *really* convertible paper money? We might just as well say that gold could be prevented from falling slowly in value, when the civilized world have as much gold and silver as they require for their trading operations. Mr. Macleod has defined convertibility admirably, "so long as the market or paper price of gold bullion coincides with the mint price, it is an infallible proof that the currency is not depreciated—that paper is at its par value." How long would this be the case if Lord Overstone's great law was not in force, viz., "*that the sole duty to be performed in regulating a paper currency is to make its amount vary as the amount of a currency exclusively metallic would vary under the same circumstances, because the mere obligation to pay in gold on demand is not a sufficient security to the public that the power to do so will at all times be maintained by the issuers.*" We have previously remarked that the wants of trade prescribe the amount of currency which any country requires, as long as that currency continues undepreciated; now it is the proportion which exists between that amount of currency which is represented by paper money issued against other security than that of gold coin or bullion, and that amount of currency which is represented by gold-coin itself, or bank-notes issued against bullion, supposing gold to be the standard of value, which must be looked to by the *true* advocates of convertibility as defined by Mr. Macleod; if this proportion is not carefully attended to, the total amount of currency may not be at all

greater than the wants of trade require, and yet the paper money will not preserve its convertibility, if put to the test by gold being required for exportation ; *it simply cannot if its amount is much higher than the amount of gold coin or bullion which chances to be in the country.* The 'Economist' says with great truth, that the authorities *even* of the famous system of monetary philosophy known as the currency principle no longer insist upon the variations of the bank-note circulation as the symptoms to be chiefly regarded, but *why* is this the case? simply because the act of 1844 has succeeded in maintaining Lord Overstone's great law, and *therefore* rendered the variations which take place of no importance; a diminution in the authorised bank-note circulation of some of the banks in the united kingdom may not be for the interest of those banks, but can *hardly* be a source of much inconvenience to the public as long as the Bank of England has the power of issuing against bullion, and all the old banks in Scotland and Ireland have the power of issuing against sovereigns. Are the opponents of that despised currency principle, to which we owe so much, prepared to allow new banks of issue to start up throughout the united kingdom, and thus to encounter afresh all the dangers from which Sir Robert Peel's acts relieved us? They would answer no, unanimously, and yet any new principle, which they advocate, seems to us to lead to no other result.

221. Does a depreciation of the currency, arising from over issues of paper money, affect all prices uniformly?

It does, but we often cannot see its effect, for each commodity is affected by its own particular circumstances, and its price in paper money will rise or fall accordingly.

222. What is the principal inconvenience caused by over issues of inconvertible paper money?

The fluctuations which are constantly taking place in its value, and the greater the fluctuations, the greater is the inconvenience which is felt by business men, for the debts which they contract in a currency of one value they have to pay in a currency of either a higher or a lower value as the case may be. Either the buyer or the seller is sure to lose as the paper currency becomes more or less valuable.

223. Give an instance of this?

An abolitionist preacher in the Northern States notices with delight that gold has fallen in a very short space from 72 to 38 premium, but a man of business looks at this in a very different light, for any debts which he has contracted in the paper currency when at a low value he has to pay in the same currency when at a much higher value.

224. In cases of what may be called chronic depreciation, such as obtains in Austria at present, is the inconvenience so great?

No, for the fluctuations in value are not so sudden, they are far more gradual; a different price is settled for commodities when paid for in paper money and when paid for in silver, and the internal trade of the country suffers but little inconvenience; imports from other countries will rise in price in proportion as it

becomes more difficult to obtain any means of paying for them.

225. Give some account of the system of finance pursued in the Northern States of America since the war broke out?

That adroit financier, Mr. Chase, gives the following account of his proceedings:—"I began by borrowing all the gold I could get in the country. I raised 175 millions and began paying it out, and it was soon observed that it did not come back near so fast as it was paid out. Presently capitalists refused to furnish any more unless at extravagant rates, which I would not pay. More money must be raised.—Eastern banks proposed to take the notes of the Government for the amount we wanted with 6 per cent. interest, and then go to work to manufacture the money to furnish us. So all things would have gone on swimmingly for a time, but presently something would have happened. What would you have me do with such a proposition? Just what I did, I think. It seemed to me that if I could get the collective notes of all our citizens, they would be just as good as the notes of every bank. What should I do then but get these notes—the notes of the whole people? what in short, but make green-backs? At first many thought it a bold and hazardous experiment—many bankers predicted its disastrous failure, and a disposition was manifested to break us down by discrediting this currency. Some refused to take it altogether. What was there next to do? What would you have done if you had been in my place? Precisely what I did—I think you would have told

them, as I did, when they refused it, that they would have to take either that or nothing ! In other words you would have made your currency a legal tender. That was the next step. After that we came to an issue of bonds, paying the interest on them in gold. We found we could get the gold to do it, and that we thus had our finance on a basis that entirely satisfied the public demand for security of investments. Now what is there in this system that does not seem precisely what any one of you would have felt like doing? You have a currency that supplies all your wants, which is simply the faith and credit of the whole people put into money. One step more was needed—it was necessary to have the capital of the country engaged in this circulation to give it stability and permanence. To secure this we devised the national banking system. The whole financial policy of the administration became thus as plain as the alphabet.”

226. What is probably Mr. Chase’s object at present?

To delay the crash *which he well knows to be inevitable*, till the Southern States are worn out, when he thinks they will give in.

227. How does he manage to do this?

He every now and then reduces the premium on gold by either reducing the amount of paper currency afloat or by privately appearing in the market as a seller of gold to a large extent.

228. How can he reduce the amount of paper currency afloat?

1. By persuading the people to convert their green-

backs into five-twenty or ten-forty bonds with interest payable in gold.

2. By withdrawing from circulation for a time a large proportion of the green-backs which are paid into Government for taxes, &c. &c.

229. How does he get hold of the gold to sell?

All the custom's duties in the Northern States are paid in specie, so there is thus a constant influx into the treasury. Besides, when the paper currency rises in value from its whole amount having been diminished by the double process above described, holders of gold exchange it much more readily for green-backs, for they say, "gold is steadily falling, and we had much better change it for green-backs or bonds while we can get such a high premium for it."

230. What is the true difficulty to be encountered by the Northern government?

That the Northern States are being steadily deprived of all the gold and silver which they used formerly to possess, and that neither abolitionist nor copperhead can prevent the exportation taking place, though such a clever man as Mr. Chase may delay the process slightly by such expedients as we have described. Northern importers have been making very large purchases in Europe, in anticipation of a revision of the tariff and an increase of duties, and they must procure gold enough somehow for the necessary remittances to Europe by each steamer.

231. Have circumstances in Europe been favorable to Mr. Chase's operations?

No, for we have not wanted nearly so much grain this last year as we usually do. The Germans have

assisted Mr. Chase by buying United States bonds pretty largely of late, as they were tempted by the promise of interest payable only in gold, but they will regret their folly when they learn that, in order to favour Yankee merchants who would otherwise be compelled to purchase gold to pay their custom's duties, Mr. Chase has ingeniously twisted the permission which he obtained of selling gold publicly into a permission to sell certificates which Government will receive instead of that amount of gold which they purport to represent, in payment of these duties. These certificates are valid for three days, and they are issued by the sub-treasurer at a rate corresponding with the price of gold estimated in green-backs in the open market; this rate is fixed for short periods. If this system is allowed to go on, it is evident that Mr. Chase must give up paying interest on his five-twenty bonds in gold, for one of his principal sources of supply is thus shut off from finding its way into the treasury.

232. Had Mr. Chase any other way of acting by which he could have raised a revenue sufficient for the wants of the Northern Government?

The truth is that he had not, for the Government would not have dared to impose the taxes which would have been absolutely necessary to prevent the over issues of paper money.

233. Are a crash and a state bankruptcy likely to take place?

We consider that they are altogether unavoidable, whether the North conquers or the South succeeds in obtaining her dear-bought independence. It is a

mere question of time, and our commercial world may well look on and wonder how dextrously Mr. Chase delays the sand in the hour-glass, but it is still running for all that he can do.

234. What does Doctor Adam Smith say on this subject?

In the third volume of the 'Wealth of Nations,' the following passage occurs: "When it becomes necessary for a state to declare itself bankrupt, in the same manner as when it becomes necessary for an individual to do so, a fair, open, and avowed bankruptcy is always the measure which is both least dishonorable to the debtor and least hurtful to the creditor. The honour of a state is surely very poorly provided for, when in order to cover the disgrace of a real bankruptcy, it has recourse to any juggling tricks which are so easily seen through and at the same time so extremely pernicious."

CHAPTER VIII.

TAXATION.

235. What is taxation in Great Britain?

It is the cost of the British constitution, that is, the per-centage which we must pay to secure our lives and properties.

236. What ought a tax to be?

It ought to be but the price which we have to pay for some advantage given to us in return.

237. How can we best consult the interests of the whole mass of the nation?

By encouraging free competition amongst all ex-changers, irrespective of race or country, and thereby lessening the cost of producing commodities.

238. Does taxation in any country necessarily restrict competition in that country?

No, it does not, provided that the same kind of commodities are taxed exactly alike, whether they be produced at home or abroad. Taxation only restricts competition when the same kind of commodities are unequally taxed, that is to say, when the price of certain kinds of commodities which some competitors supply is raised by taxation above the price of the same kind of commodities which other competitors supply.

239. What should be the aim of the financialist?

To endeavour to make competition absolutely free.

240. What are direct taxes?

They are taxes which are directly and distinctly demanded as taxes.

241. What are indirect taxes?

They are taxes upon the consumption of various commodities, the payment of which can be avoided by not consuming the commodities.

242. What are the objections to direct taxation?

That it interferes with the private concerns of the people too much, that it gives great opportunities for fraud, and that it cannot be put equally on all classes, but that those who are rich pay more than their fair share of taxation.

243. What are the objections to indirect taxation?

That it is not just that taxation should be optional, and that any tax on the consumption of commodities must prevent the natural development of trade.

244. What is the advantage of direct taxation?

That it presses on those who are best able to bear it, and that it enables us to lighten indirect taxes on the consumption of various commodities which may be called necessities, whereby we both improve the condition of the masses and greatly develop the trade of the country; for instance, lowering the taxes on tea, sugar, wine, &c.

245. What is the advantage of indirect taxation?

That a very large mass of the people are made contributors to the revenue, by indirect taxes, whom no system of direct taxation could reach, as in the case of the tax on tobacco in Ireland.

246. What is the best system of taxation?

A mixture of direct and indirect taxation, such as we have in Great Britain.

247. What is the proportion between these two modes of collecting our revenue, as it stands at present?

Mr. Milner Gibson stated lately that for every £22 paid by direct taxation, during 1860 and 1861, there would be £78 paid by indirect taxation.

248. Why is this mixed system the best?

Because if we had only a direct system of taxation it would fall too heavily on the richer classes; direct taxes could not be collected from the poorer classes, and the great mass of the people would escape taxation altogether. If we had only an indirect system of taxation, we never could have developed the trade of Great Britain to the enormous extent we have done, for we could not have lowered the taxes on such commodities as tea, sugar, wine, corn, &c., sufficiently. By mixing the two systems we are enabled to collect the required amount of revenue in the least injurious way to all classes of the nation.

249. Is the tendency in Great Britain towards direct or towards indirect taxation?

It is towards direct taxation; so much palpable benefit to the community at large has been derived from the remission of some indirect taxes, and the lowering of others.

250. How far is this tendency likely to go?

It will go on till Parliament has decided what is the highest rate which they will allow the income tax to remain at as a permanent tax in times of peace. The system of finance which Mr. Gladstone follows, has benefited enormously the mass of the people on whom the income tax does not fall, and though we

perfectly agree with Mr. M'Culloch "that rich men should not be unfairly treated by being subjected to *peculiarly* high rates of taxation," we question that such men (taking the whole burden of direct and indirect taxation together) do pay a much higher percentage on the incomes which they enjoy, than common labourers have to pay in indirect taxation alone out of their wages.

251. Would universal suffrage make the direct system of taxation go further than our present electoral system does?

It would seem in theory to be likely that the poor, who are many, would, if they had the power, make the rich, who are comparatively few, pay taxes for themselves and the poor too, but such is not found to be the case. In America, where universal suffrage obtains, the rich do not cry out that they are made to pay more than their fair share of taxation by the poor.

252. Mention Dr. Adam Smith's four rules with regard to taxation.

(1) That the subjects of a state should contribute to the support of that state according to the revenue which they respectively enjoy under its protection.

(2) That such contribution should not be arbitrary, both the time of payment and the sum to be paid being fixed.

(3) That every tax should be levied at the most convenient time to the contributor.

(4) That the expense of collection should be as small as possible.

253. If the expense of collection was precisely the

same, and we wanted to raise a revenue of seventy millions by taxation, to which system ought we to resort, the direct or the indirect?

To the direct system, provided that we could levy these direct taxes equally and fairly on all her Majesty's subjects in Great Britain, rich and poor, high and low, for our trade would then be perfectly free to develop itself and would increase enormously. Anything which cramps trade must weaken the tax-paying capacities of the people.

254. Is it just that there should be a graduated scale of income tax, the richest people paying a large per-centage on their incomes, and then a low per-centage gradually reached as the incomes dealt with get less?

Certainly not; such a scale interferes with the rights of property; all men, whatever be their incomes ought to pay exactly the same per-centage, those only being exempt whose incomes are so small that the tax would not pay the expense of its collection. Taxing any particular class at a higher rate of per-centage than the rest, because they chance to be rich, is, in reality, a confiscation of their property.

255. How may a heavy taxation be made to appear lighter than it is in reality?

(1) By spreading it over the greatest number of contributors possible. A certain sum must be collected for revenue; the more you can increase the number of those who must contribute towards that sum the smaller will each single contribution become, and the less grievous will the taxation appear to be.

(2) By repealing or lowering any taxes which interfere with the free development of trade, and substituting other taxes in place of them. The repeal of the corn laws, for instance, created a large, steady trade with foreign nations, who send their grain to Great Britain, and did more good to the people by the employment caused by that trade than by the mere cheapening of the loaf. The source of wealth is trade; the more, therefore, we can develop trade in all its branches the richer we become, and the better able to pay any taxation which is found to be necessary.

256. What are excise duties?

Taxes levied upon the consumption of commodities which are produced within the kingdom.

257. What are customs duties?

Taxes levied upon the consumption of commodities which are produced in foreign countries and brought into the kingdom.

258. Is the amount of duty remitted to the consumer the only relief which he generally obtains from a remission of the customs duties levied on commodities from abroad?

No; he may gain greatly by a reduction in the price of the commodity on which the duty has been remitted, for the competition from abroad, which that remission produces, will bring down the price of the commodity, so that the consumer not only gets the relief given by the remission of the customs duty, but he also gets the relief given by the reduction in price from the increased competition. It is competition which brings the profit made by the producers of any

commodity to its minimum rate, for one undersells the other till this rate is reached.

259. Give an instance to explain this.

Brandy is made in Great Britain to a very considerable extent, and is also imported from France, but paid formerly a duty of 15*s.* 2*d.* per gallon ; now, when this duty is lowered to 8*s.* 2*d.* per gallon, the British manufacturer who could successfully compete with French Brandy that paid a duty of 15*s.* 2*d.* per gallon, may very likely not be able to compete with it when it pays a duty of only 8*s.* 2*d.* per gallon ; or if he is still able to compete, must lower his price, or he would be undersold by the French manufacturer ; so that in this case the consumer not only gains by a remission of the customs duty on brandy, but he gains also by a reduction in the price of the brandy which he consumes.

260. What does this show ?

It shows that the customs duty and the excise duty on any one commodity ought to be equalized, in order to secure the freest competition among those who supply that commodity ; if, for instance, the customs duty on foreign brandy is higher than the excise duty on home-made brandy, the distiller of brandy at home is protected against the foreign distiller, to the disadvantage of the consumer.

261. Are export duties advantageous ?

If a country has almost the exclusive supply of any commodity, a moderate export duty on that commodity may be advisable, as long as it does not in the least interfere with the consumption of the commodity. If other countries also produce the commodity, an

export duty on it is a bounty to encourage your rivals in the market. Experience must decide, in the first case, whether it is best to make the foreigner pay the export duty, or to make your own people pay some equivalent tax after they have got the highest price for the commodity, which would, of course, include the export duty. Export duties have not been found to answer in Great Britain.

262. Are import duties advantageous?

In no shape; they cramp the natural development of trade: but we are obliged to resort to them to get the money required for revenue.

263. If indirect taxation is absolutely necessary, what sort of commodities should we tax heavily, and what sort lightly?

We should tax heavily any commodities which are not absolutely necessary for the health and welfare of the people, but which they are in the habit of consuming, such as tobacco, gin, whiskey, brandy, &c.; but we should tax as lightly as possible such commodities as wine, beer, tea, coffee, sugar, &c., for these commodities are directly conducive to the health and welfare of the people.

264. How long ought we go on lowering a tax on the consumption of any of these last commodities?

As long as the increased consumption on account of that lowering brings the tax to the same amount at the year's end; once a commodity has reached a price which puts it practically in the hands of the people, lowering the tax on it will increase its consumption but very little.

265. What is a tariff?

A table of the duties established by law in any particular country.

266. What is an ad-valorem duty?

A duty based upon the value of the commodity it is imposed on, and which fluctuates as that value fluctuates.

267. What is a specific duty?

A duty which may or may not be based on the value of the commodity it is imposed on, but which does not fluctuate as that value fluctuates.

268. Are there, then, two kinds of specific duties?

Yes, there is the purely specific duty which is not based on the value of the commodity it is imposed on, as for instance, the tax on tea in Great Britain of 1s. per pound, common congou, worth about 10d. per pound, paying exactly the same duty as flowery pekoe, worth 3s. 6d. per pound; and there is the specific duty which is based upon the value of the commodity it is imposed on, but which does not fluctuate as that value fluctuates. This may be called the specific duty on a classification of commodities arrived at by valuation; for instance, in the new French tariff, under the one class, linen, instead of a purely specific duty on every kind of linen, there is a specific duty of fifteen per cent. on seven sub-classes of linens, and this duty differs for each of them, as it has been arrived at by calculating the rate of fifteen per cent. on a previous valuation of each sub-class.

269. Are there any objections to the working of a tariff on the purely ad-valorem system?

Yes; such a tariff gives great opportunities for wrangling and fraud, and there must always be a

danger of under-valuations to the detriment of the public revenue. The advocates of the system declare that it is the simplest, but this simplicity disappears on examination of the way the system works; it is very simple to strike an ad-valorem rate of twenty per cent. on the value of any number of commodities; but it is very far from being a simple matter to levy that rate on each particular class of commodity according to its market price.

270. Are there any objections to a tariff based upon the purely specific system?

There are no objections to the practical working of a tariff on such a system, but the difficulty of framing it successfully with regard to such commodities as wine and sugar would prevent its being universally adopted. As Mr. Fryer very justly remarked with regard to sugar "by the removal of the treacle and dirt, the mass was reduced in weight, and, if the same duty was imposed upon the raw, with its impurities, that was charged on the pure loaf sugar, the produce of the foreign refineries, it would be clear that the British refiner would pay two duties, one upon the sugar extracted and another upon the refuse removed, while his competitor, the foreign refiner would pay upon the former only."

271. Are there any objections to a tariff based upon a system of specific duties on a classification of commodities arrived at by valuation?

Yes; one of the principal objections lies in the necessity of frequently revising such a tariff, in order to keep the specific duties always at the level, which they were originally designed to observe, with rela-

tion to the selling prices of the commodities. For instance, if the specific duty on any particular commodity is fifteen per cent., arrived at by a previous valuation of the commodity, should this last fall ten per cent. in price, the specific duty no longer maintains its level, but becomes a specific duty of sixteen $\frac{2}{3}$ per cent. on the selling price, and therefore requires alteration. The classification of commodities in this system, too, leads to disputing and fraud; for instance, in the French commercial treaty as regards linen, there are seven classes of linens, and superior linens may be classed as inferior ones, to the detriment of the revenue in France, and so on in every instance where such classification exists.

272. What is the best kind of tariff, then?

A tariff which admits all the three systems as they can most conveniently be applied. Ad-valorem duties are the best for those goods which are subject to great and frequent variations in price. Specific duties, on a classification arrived at by valuation, offer less opportunities for fraud than ad-valorem duties, and work well if they are revised sufficiently often so as to maintain their proper level with the selling prices of the commodities they are imposed on; and purely specific duties will always recommend themselves on account of their simplicity and the security which they give against fraud.

273. What must we remember in considering the expenditure of our revenue as a nation?

That, putting out of the question the advantages which we receive in return, the mere expenditure of that revenue in the country gives hosts of our country-

men employment. This is no argument in favour of taxation ; the greater the cost of production, the worse for the consumer ; but it is to show, that although, taken in this point of view, all these hosts of men are unproductive labourers, they (the labourers) profit just as much by their labour as if they were productive labourers, though their employers do not. Unproductive labour is labour productive to the labourer, but unproductive to the employer. A shipwright who works in her Majesty's dockyards gets just the same wages as a shipwright who works in any private dock-yard ; the first is, by our case, an unproductive labourer ; the second, a productive one ; but each gets the same price for the labour which he has to sell. A man who has any particular kind of labour to sell gets just the same price for it, whether it is productive or unproductive to his employer ; for instance, a sailor on board a yacht gets, at least, as good wages as a sailor on board a trading screw ; so that if the expenditure of revenue injures us, considered in the light of employers of unproductive labourers, it benefits us at the same time, considered in the light of labourers in receipt of that employment. But for this being the case, we never could bear our present taxation.

274. What is the amount of money required for revenue in Great Britain ?

About £70,564,000 for 1860.

275. How much of this amount goes to pay the interest of the national debt ?

£26,200,000.

276. Is the rate of interest payable on this debt fixed ?

No; it appears to be fixed, but it is not in reality so; the variations in the price of stock change the rate of interest constantly.

277. What is the advantage of varying the price of the stock, and fixing a nominal rate of interest?

More minute variations can take place in the price of stock than could conveniently take place in the rate of interest payable on that stock; and the more minute these variations in the price of stock are, the freer the competition amongst the capitalists who want to lend their money to Government, and the better also for the public, who can have the money they want on better terms from that very competition.

278. What influences capitalists in their offers to lend money to any Government?

They judge what a fixed annuity of three per cent. is worth in the money-market according to the market rate of interest, and then they look to the credit of the Government which is borrowing from them.

279. Are the funds equally profitable as an investment to British subjects who live at home, as to British subjects who live abroad?

No; British subjects who live abroad have only income-tax to pay on the interest derived from their investment, whereas British subjects who live at home not only have income-tax to pay on their dividends, but contribute their share as individual tax-payers towards the payment of their own interest. The £26,200,000 required to pay the interest of the National debt is all raised by taxation, and forms more than a third of the whole amount of revenue collected.

280. Are the funds being high a sign of prosperity in Great Britain?

No; the funds may rise from want of confidence amongst capitalists, who buy into them because they are the safest investment.

281. Are the post-office savings banks in Great Britain a good institution?

They are, *provided that they are so managed as to be self supporting* and that we do not hear in a few years of a loss of two or three millions on their operations. It is certainly not just that the whole British nation should be taxed for the special advantage of the class who invest in savings-banks.

282. Can true free trade exist when only one nation in the world is guided by its principles?

It can, but only amongst the individuals who compose that nation; it does not exist with regard to her foreign trade. This one nation has herself permitted free competition, irrespective of race or country, in her own markets; but she is prevented by the protective laws of other nations from competing freely in their markets. Unless there is the same free competition in the markets on each side, there is no true free trade between nation and nation; there is only an approximation to it on the part of one nation.

283. If we permit other nations to compete freely in our markets, so as to enable them to sell to us and to buy of us, as it suits their advantage, what ought we to expect in return?

To be allowed to compete freely in their markets; or if they put import duties on our manufactures, to be allowed to buy raw material from them either free

of export duty altogether, or subject to so moderate a duty that it will not interfere with our consumption of that material.

284. What has been the policy of Great Britain hitherto with regard to the commercial restrictions imposed by foreign states?

It has been to disregard such restrictions altogether, and act as if they did not exist. English statesmen consider that their country would lose more by a retaliatory system than she could gain.

285. Give an instance where a counterbalancing import duty has not been considered advantageous to English interests.

There are the paper-manufacturers in England. Rags are the only materials of which paper of a sufficiently good quality for printing can be made with profit. They are very scarce in England, as American agents buy them largely for the United States. The French and Germans have now free access to the English markets, which are the best in the world, for the sale of their paper; they have an abundant supply of rags; for, from their not having a free press, they do not want so much paper of a certain quality as we do in England; but they maintain their rags at an artificially low price at home by putting a heavy export duty on them, in order to be able to distance the English paper-manufacturers in their own markets. The English manufacturers said, "If the French and Germans will charge us no export duty on their rags, let them send as much paper as they please to English markets; but it is very hard upon us that they should keep their rags at an artificially low price at home, for

the avowed purpose of gaining an advantage over us in our own markets. What we ask for, then, is such an import duty on French and German paper, manufactured of rags, as will exactly counterbalance the export duty which the French and Germans charge us on the rags themselves." The British nation answered, "We admit that your case is a hard one, but we cannot tax ourselves by a counterbalancing duty, which must raise the price of paper, for your sole advantage; we should lose more than we could gain by doing so."

286. What, then, is the nature of the question with regard to counterbalancing import duties?

A question of pounds, shillings, and pence; do we lose more by the rise in price of the commodity on which we put the counterbalancing import duty than we gain by taxing ourselves for the advantage of a particular class? In nine cases out of ten we lose more than we could gain; and, therefore, counterbalancing import duties will be very rarely resorted to in England.

287. What is the principle that nations who maintain their raw material at an artificially low price at home, by placing export duties on it, most probably act on?

It is that there is less profit to be made on the sale of mere raw material than there would be on the goods manufactured of that raw material; and that the additional profit to be made by the rise in price of raw material, which would take place from all the world having free access to it, would by no means counterbalance the serious competition which their own

manufacturers must then meet with, for all other manufacturers would be put on much more equal terms with them.

288. What effect have export duties which tend to keep any raw material at an artificially low price at home ?

They have the effect of bounties to the home manufacturers who require that raw material.

289. What, then, is the nature of the question with regard to such export duties ?

A pounds, shillings, and pence question ; which is it best worth a nation's while, to let its raw material rise to what all the world will give for it, and boldly meet the competition of the world in its manufactures, or to keep its raw material at an artificially low price by putting export duties on it, and thus give a bounty to its own manufacturers, and enable them to enter those markets which they are allowed free access to with peculiar advantages ?

290. Is a policy of retaliation advantageous ?

No, it is never advantageous, but it is sometimes necessary ; for instance, it is by no means to our advantage to keep such a huge fleet and standing army as we now do in England, but as long as the Emperor of the French maintains his armaments on so vast a scale, we must maintain ours also ; both sides are losers, yet the policy of retaliation is necessary to defend ourselves.

291. What system is followed in Canada at present with regard to import duties on manufactured goods ?

The Canadian Government gives bounties to Ca-

nadian manufacturers, as far as it can, by putting heavy import duties on manufactured goods coming from other countries.

292. Is this system followed in the United States?

Unfortunately, it is; but in spite of the heavy import duties, our manufacturers are often able to compete for a time with the American manufacturers, from the very high price of goods.

293. Has this system received support in any other quarter lately?

Yes; the late Mr. Wilson put ten per cent. import duties on cotton yarns, and other specific duties on cotton goods which come into India. This is giving a great bounty to the Indian native manufacturers, with the cheap labour they have at their disposal, with plenty of land to grow cotton in, and with plenty of English capital ready to be lent to them on good security.

294. What does this tend to show?

The very great difficulty of the question. Mr. Wilson went to India with the object of developing its resources, and increasing the tax-paying capacities of the country; he looked to what is to the advantage of India, and he considered that the native manufacturers ought to be encouraged by bounties.

295. If this is denied, what conclusion must we come to?

That Mr. Wilson wanted money for revenue, and knew of no other means of getting it; but, whichever was his reason for putting the duties on, they must be injurious to English manufacturers, who always want

extension of their markets in every possible direction. Mr. Wilson has established a precedent, on English authority, to encourage the Americans in their system, which certainly does not answer in the United States, goods being outrageously dear, especially all kinds of clothing.

296. Does population increase in a greater ratio than food?

It does, and the consequence is a steady rise in the price of provisions all over the world.

297. Is there a limit to this increase?

Certainly, the limit is the means of subsistence; but the earth's food-producing powers must be taxed in a very different way to what they are at present, before we arrive at it.

298. Is absenteeism an evil?

It depends on what kind of absenteeism it is. A man may leave one part of the kingdom to reside in another part which he prefers; or he may leave the kingdom altogether, and reside abroad. In the first case absenteeism is no real evil; for, although small local interests suffer in the place left, other small local interests gain in the place gone to: consumption for the sake of enjoyment is not interfered with; it remains unaltered as far as the one kingdom is concerned. In the second case absenteeism is a decided evil; for consumption for the sake of enjoyment is diminished in the kingdom which the absentee leaves, while it is increased in the kingdom which he goes to. It must be remembered that it is only men of independent property who can change their place of residence without loss to themselves; professional men

are very seldom able to do so. Thus absentees necessarily form but a small class, and as long as they remain in their own country it is completely immaterial to the general prosperity of that country in what part of it they may choose to reside.

299. What does the science of which we treat teach us with regard to the management of our revenue in Great Britain?

It does not pretend to teach us what expenditure ought to be maintained, but it teaches that we should have a proper return for that expenditure whatever it be.

300. What should we desire most at present for the general advantage of all classes in England?

That the nations we deal with should become free traders like ourselves, for we should then have plenty of employment at home, and consequently be better able to pay whatever taxes are found to be necessary.

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